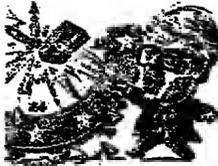


FINANCIAL TIMES



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UK ministers at the brink

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Yeltsin aims at powerful targets

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Back to India
Reversing the brain drain

Page 4



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World Business Newspaper

THURSDAY JUNE 27 1996

Karadzic offers to resign if his state gains recognition

Bosnian Serb leader Radovan Karadzic, wanted on war crimes charges, offered to resign only if the international community met conditions for the recognition of his mini-state, Republika Srpska. He made clear that he would stand in the Bosnian elections if his demands were not met. Page 14

Malaysia to expand exchanges: Singapore's role as the region's financial hub is facing a challenge from Malaysia, which plans to allow companies from other countries to list shares on its main stock exchange. Page 14

Fiat to sell off British subsidiary: Italian vehicle and industrial group Fiat is to sell off a minority stake in New Holland, its London-based agricultural and construction equipment subsidiary, by the end of the year. Page 15

Lloyd's plan wins names backing: A group representing 2,000 long-standing Lloyd's of London Names voted unanimously to recommend that members accept Lloyd's recovery plan - a decisive step towards ending legal action at the insurance market. Page 6

Air France reported its first annual operating profit of the 1990s but recorded a net loss of nearly FF3bn (\$570m) under provisions for a voluntary severance scheme and other labour measures. Page 15

Thousands attend Papandreu funeral: Tens of thousands of Greeks gathered for the funeral of Andreas Papandreu, the former prime minister and founder of the Panhellenic Socialist Movement, who died on Sunday. Page 2

General Motors, the world's largest vehicle maker, and the Polish government have agreed a DM450m (\$298m) plan to build a car assembly plant near Katowice, southern Poland. Page 7

German telecoms agreement: Germany's parliament agreed on a formula to regulate telecommunications after they are liberalised in 1998 but private operators complained the government was not doing enough to ensure fair play. Page 2

Zyuganov alleges Kremlin bias: The Communist candidate in Russia's presidential election, Gennady Zyuganov, accused the Kremlin of breaking the law to ensure a victory for Boris Yeltsin in next week's run-off. Page 3

Seoul spurs trade pleas: South Korea is not expected to respond soon to US and EU pleas to open its car and telecom markets despite its growing trade deficit. Page 7

Locals elections begin in KwaZulu-Natal



Voters in the black township of Umhlabi south of Durban queue to cast their votes in local elections in South Africa's KwaZulu-Natal. The province has suffered years of political violence and voting had been delayed three times, but yesterday's polls drew towards a close without incident.

IMF head urges bigger role for unions: International Monetary Fund managing director Michel Camdessus urged trade unions to contribute towards the growth of the global economy. Page 7

Philip Morris ends Dutch campaign: US cigarette giant Philip Morris ended in the Netherlands its controversial advertising claims that passive smoking was less damaging to health than eating biscuits or drinking water. Page 3

Senna manslaughter charge calls: An Italian prosecutor has asked for Formula One team manager Frank Williams to be tried for alleged manslaughter over the death of world champion driver Ayrton Senna in 1994.

Czech Republic through to Euro 96 final: France's unbeaten run of 27 games ended in the Euro 96 semi-finals as the Czech Republic beat them 6-5 on penalties after a goalless game at Manchester. They will play the winner of the second semi-final between England and Germany in Sunday's final at London.

NEW STOCK MARKET INDICES		GOLD	
New York: S&P 500	5,896.02 (+32.25)	New York: Gold	329.47 (\$65.8)
Dow Jones Ind. Av.	5,896.02 (+32.25)	(Aug)	329.47 (\$65.8)
NASDAQ Composite	1,153.48 (+13.18)	London:	
Europe and Far East		close	328.5 (\$64.9)
Nikkei	22,668.88 (+89.53)		
DAX	2,573.89 (+0.73)		
FT-SE 100	3,882.5 (+16.0)		
Hong Kong	10,228.00 (+89.53)		

US US LUMBERTIME RATES	
Federal Funds	5 1/4%
3-month T-bill	5.25%
Long Bond	7.87%
Yield	7.94%

OTHER RATES	
US 3-month Interbank	5 1/4% (54.7)
US 10 yr Gov	6.83% (86.5)
France: 10 yr Gov	10.47% (104.7)
Germany: 10 yr Gov	5.77% (57.7)
Japan: 10 yr Gov	5.12% (51.2)

NORTH SEA OIL (August)	
Brent Crude	\$18.51 (18.57)
Ticker & Close	Y 188.425

Market	Index	Change	Market	Index	Change	
Atlanta	15K 220	Germany	DM400	15,000	Qatar	QR110.00
Bombay	24,200	France	FR400	14,000	Saudi	SAR12.00
Buenos Aires	1,100	Hong Kong	HK320	10,000	Singapore	S\$4.30
Calcutta	1,100	India	SENSEX	10,000	Stock	SP 500
Chengde	1,100	Indonesia	INDEX	10,000	Swiss	CHF 1.20
Colon	1,100	Japan	NIKKEI	10,000	Taiwan	TWD 120.00
Hankow	1,100	Malaysia	KLSE	10,000	Thailand	THB 120.00
Harbin	1,100	Norway	OSEX	10,000	Turkey	TL 120.00
London	1,100	South Africa	JSE	10,000	UAE	AED 120.00
Manila	1,100	Sweden	OMX	10,000		
Mumbai	1,100	Switzerland	SMI	10,000		
Osaka	1,100	UK	FTSE 100	10,000		
Shanghai	1,100	USA	DOW JONES	10,000		
Singapore	1,100					
Taipei	1,100					
Tokyo	1,100					
Yokohama	1,100					

Saudi Arabia blast kills 19 Americans and seriously injures another 64

Clinton to make terrorism top priority at G7 talks

By Patti Waldmeir in Washington and Randa Khatif in London

President Bill Clinton yesterday vowed to track down those responsible for Tuesday's truck bombing of a compound housing US Air Force personnel in Saudi Arabia.

Mr Clinton said he would make the issue of international terrorism his "first order of business" at the Group of Seven summit in Lyons which begins today.

A previously unknown group calling itself the Legion of the Martyr Abdullah al-Hazafi telephoned a London-based Arabic newspaper last night to claim responsibility and vowed to make further attacks unless foreign troops were withdrawn from Saudi Arabia.

The blast is not expected to affect oil supplies from the world's largest exporter. After an initial rise early yesterday, oil markets had settled back by the end of the day.

The Pentagon said the truck bomb blast had left 19 Americans dead and 64 seriously injured. Saudi Arabia said 389 people were wounded in the blast, the second attack against an American target in eight months. A car bomb explosion last November outside a US-run intelligence centre in the Saudi capital of Riyadh killed seven people.

Tuesday's bomb, which left a crater 11 metres deep and 26 metres wide on the street outside the compound, was estimated to contain as much as 2 1/2 tons of explosives. It shattered the front half of the eight-storey building housing American soldiers, which is near the building that was the main centre for allied air operations during the Gulf war.

US officials said the bombing followed "a series of suspicious incidents" which led to increased security measures at the base.

The incidents included cars driving slowly by, or stopping briefly, which defence department officials said were considered "low-level" threats.

Two people were said to have fled the vehicle before the explosion. There were reports that Saudi Arabia was offering a \$3m reward for information leading to the arrest of the perpetrators.

Although Israel quickly accused Iran, analysts said Islamic radicals opposed to the US presence in Saudi Arabia and who were responsible for last year's blast were more likely to be behind the attack. The US

embassy in Riyadh received threats of reprisals in anonymous phone calls after four radical Islamic Saudis were executed last month for their involvement in the November bombing. Saudi dissidents in London yesterday also assumed the attack was the work of violent Islamic groups.

Analysts said the blast raised two concerns: that a strong backlash by the Saudi government would fuel more violence there; and that the deaths of US personnel could lead to a scaling back of the US forces in Saudi Arabia, who number up to estimated 30,000 on a rotating basis.

Mr Clinton said he expected "very practical results" from Lyons in the form of proposals to combat terrorism. "Defeating these organised forces of destruction is one of the most important challenges our country faces at the end of this century," he said.

He ordered flags at all US federal facilities to be flown at half-mast. But Mr Clinton said the bombing would not deter the US from maintaining its military presence in the area. "We have worked in close partnership with the Saudis for a long time, since the presidency of Franklin Roosevelt, and I think it would be a mistake for the US to basically change its mission because of this." He said



President Bill Clinton said he would make the issue of terrorism his "first order of business" at today's Group of Seven summit in the wake of the Saudi Arabia bomb which killed 19 Americans. Picture: Reuters

Continued on Page 14

VW halts expansion in east as Brussels cuts aid

By Wolfgang Minchau in Frankfurt and Neil Buckley in Brussels

Volkswagen yesterday shelved all investment plans in eastern Germany after the European Commission slashed a state aid package for a car plant by DM211m (\$156m).

VW's move came after the Commission decided to approve only DM539m in aid under rules allowing state subsidies to be paid in European Union regions with low living standards and high unemployment.

It blocked the rest because it considered that only part of VW's investment at its plants at Mosel and Chemnitz in Saxony was greenfield development, for which a higher rate of state aid is allowed.

The decision has caused outrage in eastern Germany where it was seen as an attempt to hinder economic reconstruction.

"I fear the decision will be seen as a potential signal by investors to bypass Saxony and the other east German states," said Mr Kaij Schommer, economics minister of Saxony. "Decisions by the Commission, which so clearly hinder economic reconstruction, will not exactly serve to strengthen the European ideal among eastern Germans."

VW said the rejection came against a backdrop of a real unemployment rate in eastern Germany of 25 per cent and was especially surprising considering that Volkswagen had planned to help reconstruct Saxony and create 2,500 new jobs, including 1,200 in supplier industries.

A spokesman for Mr Karel Van Miert, the EU competition commissioner, said part of the investment and part of the aid supporting the investment, could not be accepted by the Commission using the normal rules, because part of it could not be claimed to be a potential signal by investors.

The Commission added that any expansion of Volkswagen's capacity would have a "negative impact" on the car market in western Europe, which is already suffering from over-capacity. It had therefore decided not to

Coutts to focus service on wealthy clients

By George Graham in London

Coutts & Co, the UK private banking arm of the NatWest group, is to overhaul its structure radically as part of a strategy to focus more on services to the wealthy.

The reorganisation will result in 170 job losses this year, about a 10th of the bank's UK workforce, including 62 compulsory redundancies. Another 100 to 170 jobs could go next year.

Mr Herschel Post, chief executive, said the bank was not trying to weed out its many middle-class clients who value the pres-

tige of a current account at Coutts, but these clients would no longer be the bank's main concern.

Mr Post said Coutts had developed over the past 20 years into an upmarket retail bank, providing cheque account and credit services that were open to competition from lower cost financial services groups.

"We felt uncomfortable with the idea of Coutts concentrating primarily on what I would call red-carpet retail banking," he said.

Like a number of Swiss private banks which have recently

restructured their operations, Coutts has found that most of its profits come from the small percentage of clients who come to it for a full range of financial and investment services, rather than from the majority who merely want basic bank accounts.

But competition to manage the money of the wealthy is increasing, as the main street banks fight it out with stockbrokers and traditional private banks.

Coutts is much more profitable in the UK than overseas. Coutts & Co, the UK arm, improved profits by 8 per cent last year to £43m (\$64m) before tax, while

the entire Coutts group saw pre-tax profits fall 19 per cent to £56m.

Mr Post said the bank would reorganise its private banking operations into 30 teams, each headed by a senior manager and handling 75-100 clients.

All senior managers were asked to step down and face reselection by Mr Post and their peers. Eight top-level managers will be leaving as a result of this process. More bankers are likely

to leave because they are unwilling or unable to pass all three levels of the Securities Institute's exams, which Coutts will insist on in future.

The Coutts restructuring parallels a reorganisation of its parent NatWest's UK retail bank network, which is expected to result in 350 branch closures and probably thousands of job cuts.

Bank shifts towards Swiss model, Page 8

Continued on Page 14

Setback for Olivetti hopes as chief prepares to resign

By Andrew Hill in Turin

Mr Corrado Passera is poised to resign as chief executive of Olivetti, the Italian computer group, and head of its troubled personal computer subsidiary. His departure would deal a grave blow to the company's image and plans for recovery.

Mr Passera has not yet stepped down, but Olivetti yesterday put out an uncharacteristically brief and vague statement from Mr Carlo De Benedetti, chairman and joint chief executive, in which it indicated that Mr Passera had received an alternative job offer. Industry sources said he was certain to leave.

Analysts said the news sent the worst possible signal about the prospects for Olivetti's recovery strategy, which was drawn up by Mr Passera and Mr De Benedetti. Twenty-four hours earlier, Olivetti had denied growing rumours of the impending resignation of Mr Passera, whom Mr De Benedetti last year indicated would succeed him as chairman.

Olivetti is struggling to pull out of losses caused by the poor performance of its personal computer subsidiary, and to reposition itself as a broad-based telecoms and information technology



Corrado Passera: set to resign as Olivetti chief executive

extremely friendly personal relationship which has linked us for years, when Mr Passera informed me of the job offer proposed yesterday, we agreed that it deserved serious attention." Mr De Benedetti said in yesterday's statement. One possibility is that Mr Passera is likely to take on the job of chief executive at Banco Ambrosiano Veneto, one of Italy's biggest private banks.

The Olivetti statement added that any "management developments" would take account of the convergence between information and telecoms technology, and would happen in the "greatest harmony", making the most of "younger forces" at the company. Mr De Benedetti, who controls Olivetti through Cir, his quoted holding company, said he would convene a board meeting by the end of next month.

Earlier in the day he responded to direct questions about Mr Passera's departure by pointing out how other managers who had worked with him had gone on to pursue successful careers outside Olivetti.

Last year, Olivetti recorded a consolidated loss of L1,598bn, pushed into the red by heavy restructuring charges for the fifth consecutive year.

"Taking account of the

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NEWS: EUROPE

Germany ends wrangle over telecoms

By Michael Lindemann in Bonn

Germany's parliament yesterday agreed how to regulate telecommunications after they are fully liberalised in 1998. Private operators, however, immediately complained the government was not doing enough to ensure fair play among competitors.

The agreement between the Bundestag, the lower house of parliament, and the Bundesrat, the second chamber which represents the 16 Länder or states, ends months of wrangling. The bill will now receive a final reading in the Bundestag before the weekend

and is expected to be enacted after a final passage through the Bundesrat on July 5.

Leading German companies such as Mannesmann and Veba, which are preparing to compete head-on with Deutsche Telekom, the state-owned monopolist, said they "could live with the new law".

They thought it "scandalous", however, that the government had not informed would-be competitors in advance about discounts of up to 39 per cent which Deutsche Telekom will be allowed to offer business clients from November 1.

Having announced earlier this week that Deutsche Telekom could offer the discounts - whose introduction had been delayed 10 months by the European Commission - the government said Deutsche Telekom would have to agree with competitors how much the latter would have to pay to rent Telekom lines.

However, Vebacom, the telecoms subsidiary of the Veba industrial conglomerate, said yesterday that unless a proper regulator oversaw such negotiations, Deutsche Telekom would have no incentive to reach agreement.

"We have no indication of where

these talks are supposed to take us, nor of a timetable for them," a Vebacom spokesman said. "That's what we need a proper regulator for. That's the way it happens everywhere in the world."

Mr Wolfgang Böttsch, post and telecoms minister, insisted yesterday that the new law would create the basis for a liberal telecoms regime after 1998.

The opposition Social Democrats, who control the Bundesrat, had attempted to ensure each telecoms licence issued after 1998 be tailored to cover both urban and rural areas, but

a ministry spokesman said such demands had been rejected. In line with Mr Böttsch's original proposals, licences will still be available to any operator who meets certain technical standards and can cover whatever area suits the operator.

The Länder had also tried to exert substantial political influence over the future regulatory authority, but the government and the SPD agreed on a compromise whereby an 18-strong advisory council made up of Bundestag and Bundesrat members would be consulted about appointments at the regulatory authority.

EUROPEAN NEWS DIGEST

German rate of inflation 1.2%

Western Germany's annual rate of inflation fell in June to 1.2 per cent, reverting to the level reported for April and down from May's 1.5 per cent, according to provisional figures published yesterday.

Announcing data based on returns from four of Germany's 16 states, the federal statistics office said the cost of living in western Germany was unchanged between May and June. Falling car prices were a key factor holding down prices this month.

Yesterday's news prompted some speculation that the Bundesbank council might trim the securities repurchase rate today. The repo rate, which determines short-term money market rates, has stood at 3.30 per cent since early February. The 1.2 per cent year-on-year inflation rates for April and June are the lowest since August 1995.

The Frankfurt office of UBS, the Swiss bank, yesterday forecast further, "albeit very moderate", falls in inflation towards 1 per cent, before a gradual upturn towards the end of the year.

Peter Norman, Bonn

Finns aim to be there when Emu takes off

By Michael Lindemann in Bonn

Boosted by a healthy recovery from crippling recession and underpinned by persistently sky-high unemployment - Finland has set its sights on an ambitious new economic target: it is aiming to qualify as a founding member of European monetary union.

In recent weeks, the expectation has grown in Helsinki that the Social Democrat-led, left-right coalition will take a big step in that direction by moving the Finnish markka, which has been floating since September 1992, into the European exchange rate mechanism by the end of the year.

It's going to be tough, but the Helsinki government reckons that it has little alternative, writes Hugh Carnegie

The government believes that the Emu standards of tightly controlled public finances, low inflation, low interest rates and a stable currency are exactly the conditions required to regenerate the long-term growth desperately needed to soak up unemployment.

It also fears that these vital elements would be much harder to sustain if Finland - which joined the European Union only last year - stays outside Europe's economic inner circle.

"We have realised for some time that it is going to be very demanding to get in [to Emu]," says Mr Johnny Akerholm, the finance ministry official in charge of Emu affairs. "But it is going to be very cold out there if we stay outside."

meets the technical qualification criteria.

Mr Paavo Lipponen, the prime minister, and his conservative finance minister, Mr Sauli Niinistö, are united in their pro-Emu stance. But there are doubters within their so-called "rainbow coalition" - which includes the Left and Green parties - who are mainly concerned that Emu-tailored policies impede the reduction of unemployment. The rate still stands at almost 17 per cent.

Just as important, Finland will be heavily influenced by the attitude of neighbouring Sweden. The powerful pulp and paper industry is leading the lobby arguing against moving into Emu - or even the ERM - unless Sweden does likewise.

The path to Finnish membership, assuming Emu goes ahead as planned in 1999, could well be disrupted by a number of critical factors other than simply whether the country

can comfortably be in line with required performance. Inflation is expected to reach 2 per cent next year, while the current account is set to remain firmly in surplus, underpinning the recently restored health of the markka and low interest rates.

The great shadow overhanging the Finnish economy, however, is unemployment. Total employment in Finland crashed from 2.5m in 1991 to just above 2m in 1994. Latest forecasts expect employment to return to just 2.15m in 1997 despite recent growth. Much of the recovery has been in capital-intensive export industries, while domestic industries such as banking are still shedding workers.

This year, the "rainbow" government has taken steps to

introduce more flexibility to Finland's rigid labour markets. Rules on welfare entitlements, which in some cases allowed the unemployed benefits of more than 100 per cent of previous salary, have been tightened to shorten benefit periods and limit eligibility.

But deeper labour market changes that would bring down barriers to lower paid employment in potential growth areas, for example in the private sector, are not on the agenda. This is because of resistance from the strong trade union movement and from within the SDP.

"There is a lot more that could be done, but politically it is very hard to make these changes," says Mr Esko Torsti, economist for Enskilda

Research in Helsinki.

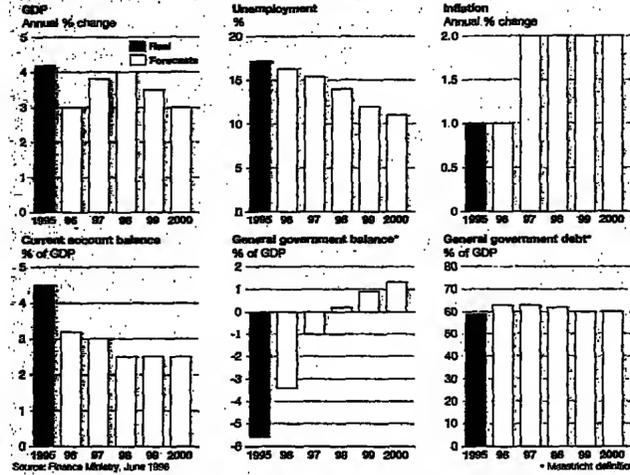
Instead, the government's strategy is to take the Emu fiscal medicine and wait for the economy to respond.

The example often cited by Finnish officials is Ireland, where a fiscal crisis of a decade ago has been turned around and Ireland has become the EU's fastest growing economy. But the ominous fact is that unemployment in Ireland is still in double figures.

As the prospect of ERM and Emu membership come closer, domestic political objections fuelled by unemployment are bound to increase.

If Sweden decides to stay out, they may become irresistible. But for the moment at least, the government is determined to join the Emu club.

Finland's economy: the outlook brightens



At present, Sweden's Social Democratic government is taking a cautious line because of splits within the party and the country over European policy. Stockholm could well decide to stay out of both the ERM and Emu, leaving Finland having to decide whether to go it alone.

"That is the worst case that could happen," declares Mr Juha Niemelä, chief executive of UPM-Kymmene, Europe's biggest pulp and paper group. "We hope Finland and Sweden will follow suit in this matter."

But Finland is getting the economic fundamentals required for Emu into shape. After suffering a 15 per cent fall in gross domestic product between 1991 and 1993, the economy has been growing vigorously for the past two years. This year, the pace of growth has slowed. Many private sector economists doubt the government's forecast of 3 per cent growth this year will be met. But there will be clearly positive expansion - at least bringing total output back to 1990 levels.

At the same time, the government has maintained a tough stance on the public finances. Spending cuts alone have taken the equivalent of 8 per cent of annual GDP out of the budget since 1992. As a result, the central government budget deficit will, at a projected 1 per cent of GDP, be well within the Emu-required levels next year.

Government debt, at 63 per cent of GDP, will be just above the Emu barrier, but falling. Other key indicators are set to

German court orders spy to repay earnings

By Michael Lindemann in Bonn

Karl Wienand, once a leading member of Germany's Social Democratic party, was yesterday ordered to repay DM1m (\$660,000) which he earned as a spy for the Stasi, the East German secret police. The court ruling ended one of the country's most important spy cases since the fall of the Berlin wall in 1989.

A court in Düsseldorf also sentenced Wienand, 69, who managed the SPD's parliamentary party while it was in power in the 1970s, to two and a half years in prison. Wienand had been, according to the court, "an extremely important informer" who had earned DM1.3m for helping the Stasi between 1976 and 1989.

Prosecutors had sought a three-year prison sentence for Wienand, who immediately said that he would appeal against the verdict. "I never worked for the Stasi nor did I ever receive any money from them," he said.

Investigators who were processing the Stasi files after the reunification of Germany hit upon Wienand in 1993 when he came across a file code-named "Streit", the cover for a member of the SPD who was over 60 and lived in the Rhineland.

During his 13 years of service, Wienand handed the Stasi reports about the state of German politics and details of developments within the SPD, one of Germany's two main political parties.

"He never passed on special secrets," said Mr Günter Krantz, the presiding judge.

The court said Mr Herbert Wehner, well-known head of the SPD's parliamentary party in the early 1970s who had been instrumental in forging closer contacts with the Communist regime in former East Germany, had known of Wienand's contacts with the Stasi.

During his time as SPD party manager in 1972 Wienand was publicly alleged to have paid Mr Julius Steiner, a Christian Democrat deputy, DM50,000 not to vote against Mr Willi Brandt, Germany's then chancellor, in a vote of no confidence which Mr Brandt won with two votes.

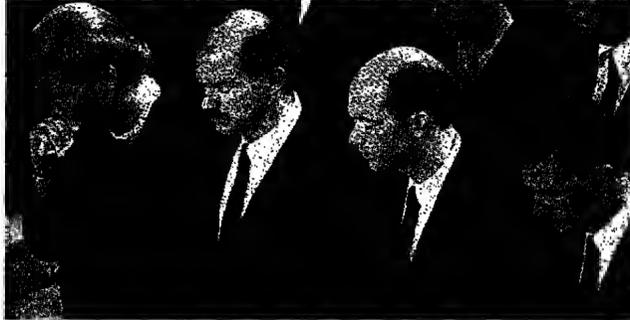
Socialist party battles put aside as Papandreou is buried in Athens

Funeral unites Greeks briefly

By Korin Hope in Athens

Tens of thousands of Greeks yesterday turned the funeral of Andreas Papandreou, the former prime minister who died on Sunday, into a populist gathering the kind he loved to address as leader of the Panhellenic Socialist Movement, the party he founded.

The crowd shouted "Andreas remember, we're with you", as Mr Papandreou's flag-draped coffin was carried out of Athens cathedral and placed on a gun-carriage. In temperatures approaching 40°C, the official mourners, led by Mr Papandreou's wife Dimitra, walked a kilometre to the cemetery to applause from crowds lining the streets.



Papandreou's widow Dimitra at the funeral yesterday with the former premier's three sons

Few international leaders attended the funeral. One who did was Mr Felipe González, Spain's former prime minister. The only Balkan head of state present, President Slobodan Milosevic of Yugoslavia, who received strong support from Mr Papandreou during the war in Bosnia, went profusely.

Mr Costas Simitis, the prime minister, paid tribute in his address to Mr Papandreou's efforts to modernise Greece but glossed over the controversial policies that distanced the country from its western partners for much of the 1980s.

More unexpectedly, Mr George Papandreou, the education minister and the former

premier's eldest son, made a gesture of reconciliation to Mrs Dimitra Papandreou as "a woman of courage who stood by our father in his last years".

Mr Papandreou's ex-wife Margaret, who agreed to divorce her husband after his much-publicised affair with the former Olympic Airways stewardess, was seen to be denting his popularity, was also present, standing close to the coffin with her other three children.

Eulogies from political opponents underlined a moment of unity that was inevitably short-lived. Mr Simitis faces a fierce battle to succeed Mr Papandreou as Pasok's leader

at a congress that opens today. Mr Papandreou, 77, resigned the premiership in January but remained party leader despite failing health. He also refused to back Mr Simitis, whom he disliked for displaying independence, to take over.

Memories of Mr Papandreou's powerful personality and inimitable rhetoric will overshadow the congress, to the possible advantage of Mr Simitis's hardline rivals. They would prefer to organise a collective leadership until next year's general election.

One hardline leader, Mr Aleks Tsochatzopoulos, the public administration minister, who

lost the premiership battle in January but commands strong support among the 5,000 delegates attending the congress, wants to split the jobs of prime minister and party leader and take control of Pasok himself.

However, Mr Simitis, who heads the party's pro-European wing, has threatened to resign as prime minister if he fails to be elected party chairman. Since he is the most likely politician to win the general election, according to opinion polls, his threat to stand down should outweigh the feeling among delegates that no single Socialist can replace Mr Papandreou at the helm of Pasok.

Private pensions get off ground in France

By Andrew Jack in Paris

More than half a million people have taken advantage of France's first gradual moves towards private pension schemes, according to the country's insurance industry body.

By the end of last year just over 600,000 contracts had been taken up by those eligible under a law sponsored by Mr Alain Madelin, the former economics minister, and passed in early 1994.

The Madelin law allows individuals who are not employees to obtain tax deductions against payments they make into retirement funds, and

health and accident insurance. It was a first move towards personal pension funds, which remain a highly sensitive political topic in France because the government, unions and employers have controlled retirement funds tightly up until now. Mr Jean Arthuis, the current economics minister, recently promised to announce wider-ranging measures later this year, although the initiative has already been repeatedly delayed.

Total premiums collected last year under the law amounted to FF3.6bn (\$700m). Some 125,000 contracts have been taken out specifically for retirement objectives, with a

further 480,000 for other forms of assurance including health.

The FFSA, the French federation of insurance companies, argued that the figures showed relative success for the law, with 10 per cent of those eligible taking out contracts, and total premiums only marginally less than projected.

The statistics were contained in the organisation's annual report, which showed a significant rise in income for French insurers last year in spite of the sluggish economy.

The 329 members of the FFSA, the French federation of insurance companies, generated turnover of FF950bn, up by 7.1 per cent on the year

before, moving the country up from fifth to fourth largest market in the world.

After four years almost without profits across the non-life sector, insurers reported aggregate profits of FF6.5bn. Profits in the life assurance sector continued to decline, to FF6.3bn.

Nearly 47 per cent of total non-life premiums last year were paid for car policies, with a further 14 per cent for multi-risk household insurance cover and 13 per cent for corporate insurance contracts.

The FFSA report showed a sharp rise in people using branch networks of banks, the post office and other financial

institutions to buy insurance contracts. This proportion rose from 42 per cent of life assurance sales in 1991 to 56 per cent last year, and for non-life products from 1 per cent to 4 per cent over the same period.

The figures show that insurers have been sharply reducing their investment in property, which has caused heavy losses among French financial institutions in the past few years. The average proportion of the sector's portfolios invested fell to 9 per cent last year from 20 per cent in 1992.

French insurers employed 197,000 people during 1995, down slightly on the previous year.

Irish crime reporter shot dead

Veronica Guerin, the award-winning Irish journalist, was shot dead yesterday near her Dublin home, the victim of apparent gangland killers.

Mrs Guerin, an investigative reporter with the Irish Independent, was awarded the International Press Freedom Award in 1995 for her work on Dublin's crime underworld. She was wounded last year when she was shot outside her Dublin home. She then told reporters from her hospital bed: "I won't be intimidated."

Mr John Bruton, the Irish prime minister, said her murder was "an attack on democracy".

John Murray Brown, Dublin

Last Yiddish daily paper to close

The world's last daily Yiddish newspaper, Unzer Wort (Our Word), will fold at the end of this month, a victim of the rising costs in the French press. Unzer Wort had already dwindled down to just three or four issues a week in recent years. It was staffed by half a dozen full-time personnel, mostly in their late 70s, aided by volunteers who sought to preserve the language of east European Jewry.

The newspaper, whose aged readership were immigrants who came to France in the 1930s and 40s, got a new lease on life with the end of Communist seven years ago. Subscription demands arrived from east European countries where small Jewish communities had survived both Nazi extermination and Communist pressures, and daily circulation crept up to 4,000. But higher costs made closing the paper inevitable, staff said.

Reuter, Paris

ECONOMIC WATCH

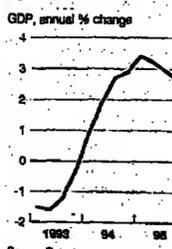
Spanish growth slows down

Spain's gross domestic product in the first quarter grew 1.9 per cent from the same period last year, according to official figures from the national statistics institute. The new centre-right government is hoping for a modest recovery to achieve a 2.3 per cent expansion in GDP for the year as a whole, and has forecast a stronger rate next year. The rate, slightly below initial estimates, confirmed a downward trend that has set in since early 1995, and analysts expect little sign of improvement before the third quarter. The institute also revised downwards its growth figure for the final quarter of last year, from 2.6 per cent to 2.3 per cent. The first quarter showed a fall in investment growth, especially in the construction sector.

David White, Madrid

Sweden's producer price index was down 0.6 per cent in May from April and down 2.9 per cent from a year earlier.

Spain



Source: Datapoint

Kremlin tide turns against Communists

By Chrystie Freeland in Moscow

Mr Gennady Zyuganov, the Communist candidate whose hopes of becoming Russia's next president have steadily receded over the past few weeks, yesterday accused the Kremlin of breaking the law to ensure a victory for Mr Boris Yeltsin in next week's run-off.

But the Communist leader's formal accusation was dismissed as sour grapes by the Yeltsin campaign and it seemed unlikely to sway the pro-Yeltsin officials who regulate the elections.

Mr Zyuganov, who turned 52 yesterday, celebrated the occasion with a ringing attack on his rival, whom he accused of pressuring regional officials to ensure a pro-Yeltsin vote and buying support with cash handouts. The Communists also launched legal proceedings against election officials, telling the courts that results from the first round of voting in one Russian region had been falsified in the incumbent's favour.

"Many regional leaders have been warned that they will not remain in their posts if Mr Yeltsin loses in their region," Mr Zyuganov said. "Such illegal practices in preparation for the election and in the election campaign can bring into question the very results of voting for Mr Yeltsin."

However, the Communist allegations did not seem to slow the Kremlin's aggressive

efforts to ensure a high voter turnout for the July 3 ballot, which presidential aides believe is the key to Mr Yeltsin's re-election bid.

"We have to do everything to ensure a high turnout," Mr Yeltsin yesterday told a group of regional leaders. "Be participating in your efforts - convince, organise, use every possibility."

Mr Oleg Lobov, a long-time Yeltsin ally recently promoted to the job of first deputy prime minister, went even further, warning regional leaders that they could be sacked if voter participation was low in their fiefdoms.

He urged local bosses to reward elderly and disadvantaged voters with small gifts for coming to the polls.

Mr Yeltsin and his lieutenants also attacked some provincial factory managers for planning to give their workers impromptu holidays next Thursday and Friday. Doing so would defeat the purpose of the mid-week election date - an unusual timing decreed by the government to capture voters who might otherwise be in their countryside dachas.

Although the run-off is still one week away, the Russian president has already been endorsed by the country's stock market.

The Moscow bourse continued to surge yesterday, buoyed by the growing confidence among western and domestic investors that Mr Yeltsin is certain to win.

Yeltsin's new strongmen rally round

John Thornhill examines the combative president's coup against the Kremlin's old guard

Mr Boris Yeltsin, fighting fiercely to remain Russian president, has this month done the seemingly unimaginable in sacking the heads of the country's military forces, security service, and presidential guard - just when he might need them most.

One of the centuries-old rules of Kremlin politics appeared to be that no Russian leader could hope to survive if he antagonised all his strongmen simultaneously.

In medieval times, the fearsome Kremlin guards, known as the *Sretsy*, had a habit of impaling unpopular rulers on their pikes. Mr Mikhail Gorbachev, the last Soviet president, suffered the modern equivalent by provoking the headline coup of August 1991.

The loyalty of the armed services could soon be tested if any civil disturbances mar the presidential elections. The Communist party has already said it will stage mass protests if it suspects any falsification of the polls.

Both Mr Alexander Korzhakov, the head of the presidential guard, and General Pavel Grachev, the defence minister, have proved their loyalty to the president in the heat of the battle. Mr Korzhakov stood by Mr Yeltsin in August 1991 when he faced down the hardline communist coup.

Gen Grachev sent the tanks back to the same building two years later to crush a parliamentary revolt.

But Mr Yeltsin has sacrificed both these loyal servants to his immediate political ambitions. Gen Grachev's head was the price Mr Alexander Lebed, the president's newly-appointed security supremo, demanded



Power ministers: President Yeltsin at the Kremlin yesterday with (left to right) acting defence minister Mikhail Kolesnikov, parliamentary speaker Gennady Seleznev and new security council chief Alexander Lebed

before joining the government; while Mr Korzhakov, who appears to have been preparing the ground for Mr Yeltsin to postpone the elections and rule by force, fell victim to the president's desire to appease his liberal critics.

Mr Yeltsin started chasing the hawks from the Kremlin early last week by sacking Gen Grachev, who has been vilified for his bungling conduct of the Chechen war. This week, the combative president also dumped seven army generals closely associated with Gen Grachev.

Mr Lebed initially hinted these generals had been plan-

ning a coup. But the former army commander and losing presidential candidate, who appears over-fond of the dramatic statement, later admitted he had been exaggerating. Gen Grachev's aides hotly denied any conspiracy and said the generals who gathered in the minister's office were there to bid him a "manly farewell".

The fallen defence minister has since been reported to be playing volleyball at his dacha.

Some of the general staff at the ministry's headquarters, however, appear to be in a state of mild panic about the arrival of Mr Lebed. There have been reports of senior

army officers destroying files and erasing computer discs.

Mr Lebed has scarcely been able to conceal his personal animosity towards Gen Grachev and his cronies. "I don't like prostitutes," Mr Lebed said of the former defence minister, "whether in a skirt or in trousers."

Mr Yeltsin's move last week to sack Mr Korzhakov, his long-time bodyguard and confidant, has provoked even more surprise. In an interview published yesterday by the Argentinian newspaper, Mr Yeltsin described Mr Korzhakov's dismissal as the "trickiest question" because of his per-

sonal debt to a man who had been with him "in the most difficult times and the most dangerous moments".

After the bloody parliamentary uprising of October 1993, Mr Yeltsin had bolstered Mr Korzhakov and poured resources into building up the 30,000-strong presidential guard.

Mr Korzhakov himself was quick to make clear his full support for the president despite his dismissal. "I have backed the president and I will continue to do so," he said. "I am not quitting the president's team and will do my best for Boris Yeltsin's victory in the

run-off." However, the liberal *Nezavisimaya Gazeta* newspaper reported there had been considerable disquiet about Mr Korzhakov's sacking among the presidential guard.

The Federal Security Service (FSB), heir to the KGB, seems to have reacted calmly to the sacking of its head, Mr Mikhail Barsukov, a close ally of Mr Korzhakov who was also alleged to have dabbled unwisely in the president's election campaign.

Mr Barsukov, who was appointed only last summer, has not made a big impact at the FSB.

The organisation has grown used to top-level upheavals, with seven new chiefs being appointed since 1991, and appears more interested in lobbying for more resources than in plotting coups.

"Counter-intelligence officers are weary for lack of money and questions of state security take second place in their frank conversations," one commentator wrote.

If Mr Yeltsin did worry about the destabilising effect of jettisoning all his old security chiefs, he may have comforted himself with the thought that the booming-voiced Mr Lebed appears highly popular among the army rank-and-file, if not the top brass, and could sway things his way in an emergency.

Then again, there remains the possibility that Mr Yeltsin has only temporarily ditched Mr Korzhakov and Mr Barsukov and will restore them to favour after the political heat of the pre-election season fades.

"They are professionals and their life does not end here," one of Mr Yeltsin's aides said this week.

Nasdaq-style system for Ukraine securities

By Matthew Kaminski in Kiev

Ukraine's primitive securities market will gain a little sophistication next week when "over the counter" electronic stock trading starts, based on the Nasdaq system in the US.

The system, unveiled yesterday at a Kiev investor conference, aims to create an ordered secondary market for private company shares, following the belated start of Ukraine's privatisation and economic reform.

Mr Yuri Tchopko, executive director of the Ukrainian OTC Stock Trading Association, said a more transparent securities market would ease foreign investment and give a jolt to the country's economic transition.

Eighty-five securities firms have been electronically connected in the four largest Ukrainian cities of Donetsk, Kharkiv, Dnepropetrovsk and the capital, Kiev.

The computer link will make possible "real time" trading based on "firm" quotations - both novel concepts in Ukraine.

The independent self-regulatory association plans shortly to make it possible to trade government bonds and open a link up to the Russian Trading

System, the main OTC market in Russia. The infant equities market today relies strictly on the telephone and the motor vehicle, where investors spend hours if not days rounding up shares in privatised enterprises from directors or individual holders. The badly managed Ukrainian Stock Exchange has been a failure from its birth five years ago and lists only four shares.

A western official who helped set up Ukraine's OTC market said a realistic estimate would be that today \$30m in shares changed hands each week despite the difficulties.

Ukraine could follow the path forged by Russia, where chaotic stock markets have grown several times over and currently report trade of about \$30m a day, the official added. "Developmentally it's about two or three years behind Russia."

But Ukraine shares another less desirable feature of the Russian market in lacking a proper regulatory framework. A securities exchange commission was established last year, but its powers are only now being defined. No central depository or custodian services exist.

Ukraine's OTC market "is

like a train for which the tracks have not yet been laid", said Mr Serhiy Oksanych, president of Kinlo, a leading Kiev investment house.

"If you have no infrastructure, foreign institutional investors can not work seriously in Ukraine," said Mr Oksanych.

The World Bank's \$310m enterprise development loan, which the board will probably approve today, stipulates that the securities exchange commission must be given more regulatory authority in the coming months.

While Russia finished mass privatisation two years ago, Ukraine's sell-offs have only begun to create a private sector. The state property fund said 2,048 large and medium companies had been privatised, out of an estimated total of 14,200.

Some of the best companies remain off the auction block, either frozen through a lease to the workers or kept back for future sale by tender.

"There's a shortage of liquid assets," Mr Oksanych said.

Mr Ihor Geller, in a report in the magazine *Privatisation Ukraine*, estimated the share of the private sector in the official economy at just 8.4 per cent.

Philip Morris to end controversial campaign

By Gordon Cramb in Amsterdam, Andrew Jack in Paris and Roderick Oram in London

Philip Morris, the US cigarette maker, said yesterday it had ended in the Netherlands its controversial advertising claims that passive smoking was less damaging to health than eating biscuits or drinking water.

The campaign, the latest in a series by the US company fighting for "smokers' rights", has drawn angry responses from politicians, health advocates, other industries and the general public across Europe.

The French biscuit industry association on Tuesday won an injunction against the advertisements. Philip Morris yesterday expressed its "surprise and shock" at the ruling but said it hoped to win an appeal. The company successfully appealed in Belgium last Friday, allowing it to resume advertising there.

Mrs Els Borst, the Dutch health minister, had condemned the campaign as misleading. Passive smoking "is completely different from eat-

ing cookies, because you can't choose not to", she argued recently, in a letter to Mrs Borst, Mr Jules Wilhelms of Philip Morris Europe said: "The European campaign about passive smoking has today had its last appearance in the Dutch media."

The advertisements had run as long as planned and the termination was unprompted by criticism by the Dutch minister, a court ban in France or other complaints across the continent, Mr David Greenberg, the group's European vice-president for public affairs said.

"We're astounded and delighted with the level of discussion about passive smoking. We've accomplished our mission," said Mr Greenberg.

The campaign started in early June in newspapers and magazines across the continent but was winding down except in Germany, where it had started later, he added. "Only a couple of publications" had declined to take the advertisements, of which *Le Monde* in France was the most prominent.

Philip Morris said the purpose of the campaign was to

use existing independent scientific studies to overturn the public perception that inhaling smoke from other people's cigarettes was damaging to one's health.

But the advertisements have particularly incensed bakers by claiming that eating one biscuit a day was more dangerous than being subjected to other people's tobacco smoke.

British bakers have been one of some 20 organisations or individuals in the UK who have complained about the campaign, the UK Advertising Standards Authority said yesterday.

"That is an average number for a general complaint but it is probably a low number for a campaign dealing with a contentious issue," said Ms Caroline Crawford, the ASA's director of communications. The ASA will take several weeks to review the case.

The French national committee against excessive smoking, which is supported by the French ministry of health, has said it would launch a legal action against Philip Morris for a campaign which it argued was illegal.

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Clinton aide quits in FBI files scandal

By Patti Waldmeir in Washington

A White House aide responsible for improperly obtaining FBI background files on some prominent Republicans has resigned, the first casualty of what is threatening to become a serious political scandal for President Bill Clinton.

Mr Craig Livingstone, head of the White House personal security office, yesterday denied that he or any other White House official had been involved in any kind of "smear campaign" against Republicans who served in previous administrations. "It's just not true," he told a congressional committee investigating the FBI files affair. He said the files - which are now believed to total over 700 - had been requested from the FBI due to "an entirely innocent mistake". Mr Livingstone's resignation is likely to be greeted with relief by the White House, which has been trying to limit the affair's political damage.

The files were procured in 1993 and 1994 during a routine updating of a list of persons entitled to access to the White House, Mr Livingstone said, adding the request was based on an outdated list provided by the Secret Service. Names of some prominent members of Republican administrations appeared on it, including Mr Brent Scowcroft, national security adviser to President George Bush, and the former president's press secretary, Mr

Marlin Fitzwater.

Republicans have cast doubt on this explanation, pointing out that even the most junior White House official ought to have recognised such well-known names and realised they were no longer eligible for White House access. There would thus have been no legitimate reason to procure their FBI files.

President Clinton's former White House counsel, Mr Bernard Nussbaum, admitted that procuring the files from the FBI amounted to "a serious breach of privacy", and said he took responsibility for the error although he did not know of the request. "We made a bad mistake here. It was an innocent mistake I believe, but it was a bad mistake."

But he added: "The very idea of obtaining FBI files for the purpose of digging up dirt on political opponents - the very thought of creating an enemies list and using secret and private government information against those individuals - is abhorrent to me."

That is exactly the allegation now being levelled at the White House by Republicans, who have pointed out that, unlike the Whitewater affair which pertains to distant events from the 1980s, these improprieties were committed recently.

The committee is expected to hear later from an Army staffer who says he gathered some 300 files for the White House, bringing the total of files requested to over 700.

Sharp boost in US durable orders

By Michael Prowse in Washington

New orders for US durable goods rose sharply last month, reflecting a surge in demand for commercial aircraft, the Commerce Department said yesterday.

Orders rose by 3.3 per cent last month and by 7.7 per cent in the year to May. The data surprised Wall Street economists, who had projected an increase of about 1.3 per cent.

However, analysts played down the significance of the increase because the main source of strength was a doubling in orders for aircraft - a highly volatile sector.

Excluding transport, orders rose 0.7 per cent, roughly in line with expectations.

Economists said that orders for civilian capital goods excluding aircraft - widely seen as a proxy for business investment demand - were flat last month, having declined in previous months.

The figures were released as the US Federal Reserve prepared for a policy meeting on interest rates next week.

Many economists expect the Fed to raise short-term interest rates this summer in response to evidence of above-trend economic growth.

But the timing of any increase remains uncertain, with some analysts warning that an increase as soon as next week is unlikely.

US Supreme Court overturns limits on Congress election expenditure

Court frees party poll spending

By Jurek Martin in Washington

The US Supreme Court yesterday ruled that political parties need not abide by federal election spending limits in offering financial support to congressional candidates.

The 7-2 judgment, handed down one day after the Senate had effectively killed a campaign finance reform bill, could have an impact on this year's elections for the legislature and could, in theory, be applied to the race for the White House, in which candidates receive about \$5m each in direct federal funding, supplemented by approximately

\$10m in party money.

The case in front of the court stemmed from the 1986 Senate contest in Colorado won by then Democratic Congressman Tim Wirth, who is now under-secretary of state for global affairs.

Although it had chosen no Senate candidate of its own at the time, the Colorado Republican party spent \$15,000 on broadcast commercials attacking Mr Wirth's record. The Federal Election Commission and an appeals court found this violated the 1971 campaign spending act.

The Supreme Court, however, overruled these judg-

ments and declared that the constitutional rights to free speech of the Colorado Republican party had been abridged. It did not state that political parties have a constitutional right to spend as much they wish on congressional candidates but, at the very least, it appears to have driven a wedge into the existing law.

The 1971 law generally limits contributions by state and national parties to Senate races to \$20,000 or two cents for each citizen of voting age, whichever is the greater. This may be a small bucket in the ocean of what a candidate may actually spend, for which the

record is the nearly \$30m spent in California in 1994 by the independently wealthy former Republican Congressman Michael Huffington.

Both the Democratic and Republican national parties had petitioned the court to remove spending limits. But lawyers for the Clinton administration had argued that the federal ceilings helped prevent corruption, or the appearance of corruption.

In another keenly anticipated ruling, the court ordered, by a 7-1 majority, the all-male Virginia military institute, a state-supported college, to admit women. It found that

Protests spoil Zedillo's tour of southern state

By Leslie Crawford in Mexico City

Anti-government protesters blocked highways and oil wells during a visit by President Ernesto Zedillo to the strife-ridden state of Tabasco in south-eastern Mexico, where the governor, a member of the ruling Institutional Revolutionary Party (PRI), stands accused of having spent vast sums to secure his election and of alleged ties to money launderers.

The demonstrations on Tuesday were led by leaders of the opposition Revolutionary Democratic Party (PRD), who have pursued a dogged, year-long campaign to impeach Mr Roberto Madrazo, the Tabasco governor.

It was an awkward visit for Mr Zedillo, and not only because the road blocks and punch-ups forced him to tour the oil-rich state by helicopter. Mr Zedillo has been under pressure from his own party to come to the defence of his embattled governors, three of whom have resigned in the past 18 months as a result of human rights violations, embezzlement and incompetence.

Mr Zedillo's visit to Tabasco, in which he pledged more than \$1m of investment for the state, was therefore widely interpreted as show of support for Mr Madrazo.

"I am satisfied with the effort, commitment and achievements of the government led by Roberto Madrazo," Mr Zedillo said, in his first

public endorsement of the controversial Tabasco governor since the scandal over Mr Madrazo's \$73m election war-chest broke out last year.

After a year-long investigation, Mexico's top law-enforcement agency earlier this month charged several government officials in Tabasco with perjury for concealing massive election overspending during the state governorship race in 1994.

The Attorney-General's Office also established that part of Mr Madrazo's campaign funds had been donated by Mr Carlos Cabal Paniche, a Tabasco banker suspected of money laundering who fled the country after fraudulent operations were uncovered at his bank.

California exports rise 17% to \$26bn

By Christopher Parkes in Los Angeles

The reviving Mexican economy and strong demand for electronics from Canada helped expand California exports 17 per cent to almost \$26bn in the first quarter of this year.

Economic recovery and the strength of the currency in Japan, traditionally the state's biggest customer, showed through in a 38 per cent sales boost to \$4.7bn, according to the Trade and Commerce Agency in Sacramento.

Shipments worth \$2bn to Mexico, following a decline of almost 4 per cent in the comparable part of last year, showed the biggest quarterly gain in more than two years.

Ms Julie Meier Wright, trade

secretary, said the surge in dealings with California's nearest foreign neighbours demonstrated the benefits of the North American Free Trade Agreement.

The data also showed the impact of Asian economic growth on the state's fortunes, with Singapore increasing its purchases of California-origin goods and services 48 per cent to \$1.5bn in the review period.

Growth in dealings with Europe was sluggish because of "European efforts to tame their domestic economies in preparation for economic and monetary union". Exports to Germany slipped almost 3 per cent, though the UK went against the EU trend with imports worth \$1.2bn, up 13 per cent.



Poll battle: Buenos Aires town hall (left) and President Menem

Radicals stalk power via Buenos Aires

David Pilling on a city election with national fallout

On Sunday, for the first time in the city's 400-year history, Buenos Aires will elect a mayor. The non-elected incumbent, Mr Jorge Dominguez, is a Peronist. But middle-class Buenos Aires, never comfortable with Peronism's essentially working-class roots, is likely to change that.

Polls show Mr Dominguez, now the Peronist candidate, trailing in third position, on about 18 per cent. Mr Norberto La Porta, a socialist representing the centre-left Frepaso alliance, is in second place with 24 points.

Far ahead, on 37, is Mr Fernando de la Rúa of the Radicals. Victory for him on Sunday would be a God-send to the country's oldest political party, humbly but triumphantly tumbled into third place by President Carlos Menem's Peronists in a general election last year. Success on polling day, says Mr De la Rúa, would "consolidate an alternative", enabling the Radicals to showcase "an exemplary government as a counterpoint to the frivolity and corruption" of the national administration.

A Radical win would undoubtedly be a setback for Mr Menem, but its national significance should not be exaggerated. The 3m citizens of the federal capital - the centre of the sprawling conurbation of Greater Buenos Aires, which has 13m inhabitants - are hardly typical Argentine voters.

Per capita income is \$24,300, according to official statistics, three times the national average. The city's economy, at \$75bn, is bigger than the national economy of Chile. Per capita wealth is distorted by heavily skewed income distribution and by an overvalued peso, but nevertheless makes the average Buenos Aires resident nominally richer than British citizens and not far

behind those of the US.

Such wealthy voters have always been antagonistic to Peronism, which has historically shrouded itself in the rhetoric, and sometimes the practice, of fairer income distribution and workers' rights. Mr Menem's neo-liberal policies have, in broad terms, favoured the poor and the rich, but battered some sections of the middle classes, solidifying support for opposition parties in the capital.

Many middle-class Argentines lost out in the sweeping privatisations begun by the Menem administration in the early 1990s.

When the state oil company YPF was privatised, 50,000 jobs were axed, many of them well-paid middle-management positions, some of them handed down from father to son and always carrying generous pensions. Former state workers, often based in Buenos Aires, have had to take lower-paid jobs, or have swelled the ranks of the unemployed.

Much of the Peronist government's national popularity is hinged on its partial success in restoring living standards by killing hyperinflation. But this does not carry as much weight with Buenos Aires' middle classes, many of whom had become adept at profiting from high inflation. Add to this the perception that health care, the arts and higher education have all suffered badly under Menemism, and one is left with what Mr La Porta terms "the growing pauperisation of the middle classes".

Not that all concerns are the same in a city roughly divided between the rich north and the poorer south. North of Rivadavia street, which cuts a swathe through the centre, is a land of fur coats, pedigree dogs and manicured gardens. Go south and the pavements are cracked and litter-strewn, poverty more

evident, social services more stretched.

The candidates are going through the campaigning motions, addressing such municipal issues as hospital repairs, traffic congestion and town planning. But most analysts say the expected Radical victory is predicated on the desire of Buenos Aires residents to send a message of discontent to the national government.

Corruption is at such levels, says Mr La Porta, that it costs twice as much to build 100 metres of Buenos Aires subway as in Europe. The \$3bn city budget is "a pretty picture that lacks all seriousness", he says. "There is absolutely no accountability."

The Radical party's national fortunes sank to historic lows when in 1993 former Radical President Raúl Alfonsín signed a pact with the Peronists facilitating Mr Menem's re-election. Victory, say the Radicals, could provide the platform from which to launch a presidential bid in 1999.

A Radical win, however, would be tempered by the likely outcome of parallel elections for a 60-member commission that will write the constitution of the newly autonomous city. That, polls say, will be won by Frepaso.

More important still, the Radicals, some of whose principal figures are involved in serious corruption scandals, will have to polish their image to make credible their claim of representing clean government. The Radical party has been out of office so long that some observers expect this weekend's election to be followed by an ugly scramble for jobs and influence.

In the machievellian world of Argentine politics, Mr Menem might be quite content to sit back and watch the unsightly spectacle.

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NEWS: INTERNATIONAL

Chirac gives G7 a French flavour

By David Buchan in Paris

President Jacques Chirac has given the Group of Seven summit which opens in Lyons tonight a distinctly French flavour, in his choice of "globalisation" of the world economy as the main menu for the leaders' two days of talks.

According to his spokeswoman, Mr Chirac hopes that "making globalisation benefit everyone" will be the guiding theme of the summit's economic discussions, with his fellow leaders underlining the risks as well as the rewards flowing from closer integration of the world economy.

As the world's fourth largest exporter, France has no desire, let alone ability, to reverse or shield itself from globalisation, French officials insist. The point is reinforced by the decision to hold the summit in Lyons, one of France's most international cities. Its mayor is now Mr Raymond Barre, the former prime minister who in the 1993-94 French battle over Gatt was a lonely voice for the world trade accord.

Others less reconciled to globalisation will be out on the streets of Lyons over the next two days. After a 40,000-strong warm-up rally there on Tuesday by French unions, a series of counter-G7 protests is planned by aid, environmental, human rights and leftwing organisations calling themselves "Other Voices of the Planet", "Let's Take Back The Initiative" and "Resistance to Globalisation".

For his part, Mr Chirac will want to use his G7 stage to show his public the problem goes far wider than France. While globalisation may bring rewards by spreading technology and increasing trade and overall economic growth, he will emphasise the burden that adaptation to increased global competition places on people and countries.

French officials point out that inside the G7 countries, 25m people are without jobs, 5m of them in France, while outside, some 40 developing countries have become increasingly marginalised.

In the run-up to Lyons, France convened a rather inconclusive G7 jobs summit in Lille in early April, which steered a mid-course between Anglo-Saxon labour flexibility and continental European rigidity by calling in general terms for labour market reforms. French officials admit that, apart from some US support, there is no G7 consensus behind the French idea of involving the new World Trade Organisation in negotiating a core of minimum labour standards.

By contrast, they believe French views on the need for financial and currency stability and for more development aid efforts are gaining support. They are pleased a report prepared for the G7 by finance ministers endorses the usefulness of intelligent intervention by central banks on the currency markets, and hope Lyons will bless the recent rise of the US dollar.

Though G7 summits were a French invention, by Mr Voléry Giscard d'Estaing in 1975, with Mr Barre as his "shepherd", France has always stressed it should not behave like a "directorate", unheeding of other countries' views. To garner their views, Mr Chirac has sent emissaries to 20 non-G7 countries. The result has been to reinforce his determination to make aid and debt a big topic of the Saturday session in Lyons with heads of the international financial institutions.

Another effort at openness will take the form of a giant screen in Lyons' Place Bellecour with television coverage of the summit.

Bombing raises doubts about stability of world's biggest oil producer and safety of western troops stationed there

An explosive mix of young Saudi anger

Roula Khalaf traces the roots of opposition likely to have been behind Tuesday's bombing

Mr Saad al-Fagih, a leader of the London-based Saudi Islamist opposition, believes the perpetrators of the bombing of a complex in Saudi Arabia on Tuesday were young Islamic extremists who will attempt to strike again. Next time, he said, the target could be the Saudi royal family.

For people like Mr al-Fagih, who call for stricter adherence to Islam in Islam's most conservative land and accuse the royal family of corruption, the loose network of youth who believe violence alone can achieve their objectives, can only be silenced by allowing those whose politics inspired them a voice in Saudi society.

"All the people who can control those agitated people are in prison," he said. When a car bomb destroyed a US-staffed Saudi National Guard communications centre in Riyadh last November, the Saudis quickly pointed the finger at outside powers. Then, much to everyone's surprise, in April they produced four suspects who confessed the bombing was a home-grown conspiracy. The four were beheaded in May, provoking threats of reprisal in anonymous phone calls to the US embassy in Riyadh.

The admission that Saudi nationals had threatened the security of the state led analysts to suggest that the seemingly staged-managed confessions on national television were at least partly genuine.

It also focused attention on a growing Islamist opposition which, although not strong enough to pose a threat to the survival of the Saudi regime, can present a challenge to a country whose security apparatus and repression of opposition groups had long shielded it from the threat Islamists pose in other Middle Eastern countries.

In many ways, Saudi Arabia finds itself besieged by a monster it helped to create. The Saudi regime was once the main backer of Islamic opposition groups in Egypt and elsewhere in the Arab world,

whom it believed could act as buffers against the spread of communist ideology.

It helped finance and encouraged 15,000 volunteers to fight alongside the Mujahideen in the western-backed holy war against the Soviet invaders of Afghanistan. Three of the four men Saudi Arabia says were responsible for the November bombings confessed to being "Afghans", as the Arab volunteers are known.

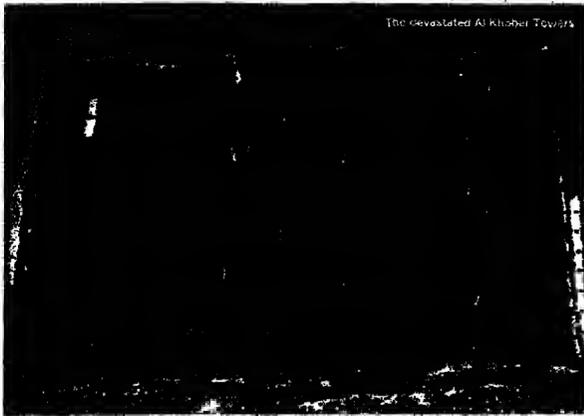
Although the kingdom was beset by riots in the 1980s in the mainly Shia eastern province, the unrest was seen as inspired by Iran, at the time actively sought to export its Islamic revolution.

Opposition in Saudi Arabia comes from two diametrically opposed poles: educated and liberal-minded middle class liberals who do not challenge the legitimacy of the royal family but would like to see more western-style democratic reforms, and the Islamists who call for political reform but of the kind that would promote an even more puritanical version of Islam, eradicate royal family corruption and rid Saudi Arabia of western influence and forces.

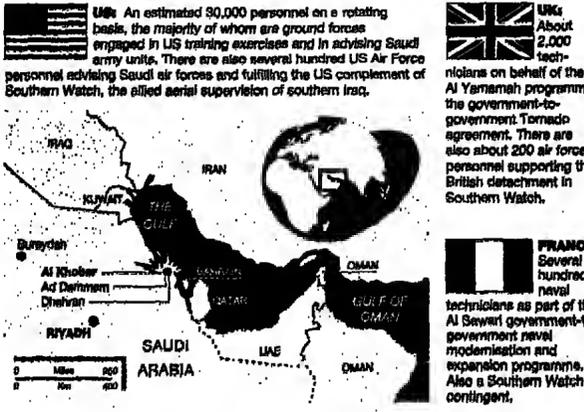
Today it is the Islamist opposition that is the most potent and the one that has attempted to organise itself into a semi-coherent movement.

The turning point for this opposition, led by so-called "neo-Wahhabis", younger clerics who see the Council of Ulama, the Saudi religious establishment, as nothing more than a rubber stamp for royal family shenanigans, was the Gulf war of 1990-91. The Al Sauds at that time asked for US help to counter a potential Iraqi threat and allowed more than 600,000 American soldiers to use Saudi Arabia as a base to liberate Kuwait.

The landing of US troops was seen by the country's conservatives as a violation of sovereignty. Echoing a theory some Saudis and Arabs subscribed to at the time, Mr Seif al-Hawali, a Sheikh from Qasim, the heartland of the Nejd which is not represented in the Majlis al



The foreign forces in Saudi Arabia: all potential terrorist targets



Shoura, the consultative council created two years ago by King Fahd. He taped a lecture during the Gulf war which was distributed in millions of copies accusing the US of harbouring plans to control Gulf oil resources. After the war, a group of 400 scholars, clerics and technologists signed a letter to the king which, detailing 12 demands, including a reshuffling of the religious establishment and the forbidding foreign troops

Foreigners braced for further terror attacks

By Robin Allen in London

The bombing of the military barracks in Dhahran on Tuesday night has raised fears of further attacks against US and other foreign military targets in Saudi Arabia.

Security officials are also likely to be worried about the size of the blast and the audacity shown by the bombers, who struck at one of the most secure facilities in the kingdom.

After a bomb in Riyadh last November, western diplomats and Saudi officials said the seriousness of the terrorist threat would be shown by any further attacks on foreign military sites.

The November attack was aimed at a lightly guarded training and communications facility located in an easily accessible residential neighbourhood of Riyadh.

But Tuesday's incident occurred at the heavily guarded King Abdul-Aziz airbase in Khobar, a sprawling military complex that is home to many of the allied aircraft which enforce the no-fly zone over southern Iraq.

The combustion of Al-Khobar, Dhahran and Dammam also contains the headquarters of Saudi Aramco, the state petroleum company, which is the world's largest oil exporter

and which employs large numbers of American and other expatriate workers.

Americans in the area were recently warned to be on their guard. But residents in the eastern province say scores of US military personnel in civilian dress were to be seen every day wandering through the streets.

Security at the base, however, was reported to be tight. This was particularly evident at the entrance to the complex, which houses thousands of Saudis as well as the US, British and French contingents attached to Southern Watch, the aerial supervision of Iraq south of the 32nd parallel.

The Al-Khobar Tower that was the target of the bombers was one of about 50 eight-storey residential blocks surrounded by a wire perimeter fence several miles long. It is impossible to secure the full length of a perimeter fence this long, senior diplomats in Dhahran said yesterday. The heavy carrying the explosives could not get through the main entrance, it stopped at an unsecured point outside the perimeter fence away from the entrance but only some 50-50 yards from the Al-Khobar Towers.

The US "has no intention of reducing its presence in Saudi Arabia", according to Mr Mike

McCurry, the White House press secretary, yesterday.

Western diplomats also reported considerable Saudi support for the US presence. "The Saudis are saying the US should not leave. On the contrary the Saudi government should crack down harder on all forms of dissent," senior western diplomats quoted local Saudis as saying.

However, not all Saudis share this view. One employee of a British company was quoted as saying: "What are Americans doing in this country? These incidents will go on so long as there are Americans on Saudi soil."

Americans make up by far the largest contingent of foreign military personnel, including British and French, who either advise or train Saudi armed forces.

Unofficial sources in Riyadh say there are more than 30,000 US troops. Since the Gulf war the US has had stationed several squadrons of F-15s and F-16s with highly refuelling aircraft at the Dhahran airbase. These provide cover for the half-dozen or so British Tornado fighter aircraft which help monitor southern Iraq to enforce a UN resolution banning Iraq from using fixed-wing aircraft in the southern exclusion zone.

Israel plans \$1.5bn budget cuts

By Julian Czernie in Jerusalem

Israel's new government yesterday began preparing for expenditure cuts in an effort to curb rising budget and balance of payments deficits and intensify the fight against inflation.

Although details have yet to be finalised, officials said expenditure cuts of Shk5bn (\$1.5bn) in the next 18 months were being considered to put the economy back on track, revitalise the flagging stock market and calm the concerns of local and foreign investors.

Mr Benjamin Netanyahu, the prime minister, has pledged to carry out far-reaching structural reforms of the economy. He held a second round of talks in a week with Mr Dan Meridor, finance minister, and Mr Jacob Frankel, central bank governor. The Treasury said

next Sunday's cabinet meeting would be devoted to reviewing the economy and the performance of the budget in 1995 and 1996.

Mr Meridor said the government would have to make a "considerable cut in spending" in order to curb inflation which has reached 15 per cent a year, up from 8 per cent last year and well ahead of the government's 1996 target of 8-10 per cent. He also said he intended to create a team that would convene every month to increase supervision and ensure that the budgetary targets were met.

A Treasury statement quoted the new finance minister as saying: "My intention is to force all of us to meet the budget targets - spending, revenue and deficit - and not to allow a significant deviation from

them as occurred in 1995." Israel has a domestic budget deficit reduction law requiring an annual cut in the deficit as a percentage of gross domestic product. But last year, in the run-up to elections, the government overshot its deficit target of Shk7.8bn, or 2.75 per cent of GDP, ending the year with a deficit about 3.5 per cent of GDP. Figures from the first four months suggest this year's domestic deficit target of Shk7.8bn, or 2.5 per cent of GDP, is well off-course and heading for 4 per cent of GDP.

Last year, the current account deficit grew from \$2.5bn in 1994 to \$4.1bn, or 4.7 per cent of GDP, and figures for the first four months suggest it will widen further this year to \$5bn. The co-ordinated government moves on the economy fol-

lowed a 1.5 per cent rise in the central bank's key lending rate earlier this week to 17 per cent, its highest level for almost two years, amid continuing signs of inflationary pressures.

For the past 18 months, Mr Frankel has insisted the battle against inflation must involve both tighter monetary and fiscal policy. Although the details have yet to be finalised, both Mr Frankel and Mr Meridor have indicated they favour an immediate cut in the 1996 budget of up to Shk2bn, and a deeper cut of Shk3bn from the 1997 budget. Such cuts would allow falls in both interest rates and the exchange rate and would revive the stock market.

Arab guerrillas killed three Israeli soldiers on patrol in the occupied West Bank near the border with Jordan yesterday.

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In short, it is different from every luxury car you may have sat in because it regards the driver as a functioning component of the car. A level of technology unprecedented on four wheels makes all this possible. This technology extends from a computer that navigates you around an unknown town, to an automatic gearbox that actually adapts to the way you drive.

Political pall over Vietnam investment

Jeremy Grant on the problems tarnishing the image of a country once touted as an Asian business hotspot

There was a time when Vietnamese television's evening news would regularly feature foreign businessmen and local officials swapping smiles and handshakes at joint venture signing ceremonies.

But those days are gone. In the run-up to a landmark congress of the Communist party, which starts tomorrow, viewers have been treated instead to speeches delivered by party bureaucrats under plaster busts of Ho Chi Minh to rows of sycophantic officials.

The foreign businessmen have also lost their smiles. A catalogue of business problems has tarnished the image of a country once touted as a south-east Asian investment hot spot.

"We have consistently advised our people not to consider investing here unless they are happy with payback starting after about six years. Not before," said one western diplomat. "It is not what people think."

The main worries are a constantly shifting legal framework, excessive and costly bureaucratic procedures, corruption, financing difficulties and an apparent lack of understanding by Vietnamese authorities and businessmen of the commercial norms that apply in any business, particularly abiding by contracts.

It was these problems that led the Hong Kong-based Political & Economic Risk Consultancy to conclude in March that Vietnam was the most risky country in Asia for foreign investors. It also said that it was the most stressful for expatriate staff.

The role of foreign investment in the country's development is but one theme in discussions during the congress, which ends on Monday. Foreign businesses are looking to Hanoi to make good on its frequent promises to improve the investment environment but, with the party diverted by leadership questions, little of immediate relevance to foreign investors is likely to emerge.

Indeed, the current ruling troika of Mr Do Muoi, the general secretary, Mr Le Duc Anh, president, and Mr Vo Van Kiet, premier, appears to have been voted a further term of office. If their tenures are officially re-confirmed on Monday, this indicates business as usual but is unlikely to focus foreign investors' minds even further on the country's reform process.

"There is one way of translating reform," said one European diplomat. "Do you allow foreigners to make money or not? That's the key issue. They still haven't accepted the rules of the game they decided to play five years ago."

Official figures have already started to reflect the darkening mood. Licensed foreign investment slumped by 48 per cent in the first five months of this

year over the same period last year, according to the ministry for planning and investment.

Only about a quarter of the total investment pledged - about \$20bn - is at work in Vietnam, according to the World Bank and local officials.

Some companies have already voted with their feet and many more are scaling back plans.

Chrysler, the US carmaker, is unlikely to go ahead with all aspects of its planned \$192m assembly plant near Ho Chi Minh City.

South Korea's Daewoo, the largest foreign investor in Vietnam with \$600m in approved projects, went public this month with its complaints. Its Vietnam general manager spoke of "many problems, many problems".

One of them has been with the structure of joint ventures. Under Vietnamese law, decisions by a joint venture's management - such as budget,

business plans and the appointment of personnel - are subject to unanimous consent. This gives the minority Vietnamese partner veto power even if the foreign side has management control under the contract.

The problem is made worse by capricious decision-making by local authorities, often acting in contravention of laws issued by Hanoi.

Mr Do Duc Dinh, a government economist, acknowledges the problems but indicates that an immediate solution is unrealistic.

"The government understands this (problem) but... how the provinces have money and money means power in certain cases."

Meanwhile, investors draw little comfort from the anti-corruption rhetoric that has appeared recently in the Vietnamese press. In one case, at the end of last month, President Anh warned in The People's Army

Brussels warms to Japanese chip proposal

By Guy de Jonquieres in London and Michio Nakamoto in Tokyo

The European Commission has welcomed a Japanese proposal that governments of the main semiconductor-producing countries meet regularly to discuss trade liberalisation and policy issues affecting the industry.

Jeppo hopes such an arrangement would make it easier to deflect political pressure from the US, which is demanding that the two countries renew a controversial semiconductor trade agreement which expires at the end of next month.

However, Japan's initiative also marks a partial retreat from its earlier insistence on the principle that governments should have no direct involvement in the industry's affairs.

The proposal follows Japan's recent call for a World Semiconductor Council, in which leading producers would exchange market data and co-operate on technical matters such as standards and environmental issues.

The European Commission favours the Japanese proposal because it views them as another opportunity to push its long-standing demand that US-Japan arrangements on semiconductor trade be widened to include the EU. However, Washington has responded coolly. Though it has welcomed Japan's readiness to concede a role for governments in the semiconductor industry, the US says the plan does not go far enough because it does not cover foreign producers' access to the Japanese market. The US also refuses to include Brussels in discussions with Japan until the EU commits itself to abolishing its semiconductor tariffs, the highest in the industrialised world.

Japan objects that its five-year-old agreement with the US amounts to managed trade, because it sets numerical targets for foreign chip makers' share of the Japanese market. The EU has condemned the agreement, concluded under

Third mobile phone network is launched

By Jeremy Grant in Hanoi

Vietnam Posts & Telecommunications (VNPT), the state telecoms monopoly, yesterday launched the country's third mobile phone network, which it said was another step in deregulating the country's fast growing telecoms sector.

Industry experts said that the system, wholly owned by VNPT, seemed the first serious attempt by Vietnam to try to build the country's embryonic telecoms infrastructure without foreign involvement.

VinaPhone, as the new system is called, will be available in 18 out of Vietnam's 58 provinces once VNPT installs switching systems and base stations bought from Siemens of Germany and Motorola of the US last year under a \$17.3m contract.

Demand for mobile phones is soaring in Vietnam. Industry estimates show there were 35,000 Vietnamese and foreign

users as of this month, against only 200 in 1993, when the service was introduced.

Of the two existing systems, one in Ho Chi Minh City is operated by Singapore Telecom and the other, MobilFone, available since July last year, is run by a VNPT unit, Vietnam Mobile Services (VMS), under a \$545m revenue-sharing deal with Comvik, part-owned by Stockholm-listed Kinnevik.

Industry experts questioned whether VNPT had the experience to operate a third system, pointing out it would be competing head on with MobilFone. "They [VNPT] certainly lack the planning ability and we don't even know if they have a billing system," said one.

"I believe the bet is going to be on customer services, value-added services and the cost of entry," Comvik International Vietnam's managing director, Mr Magnus Manderson, said.

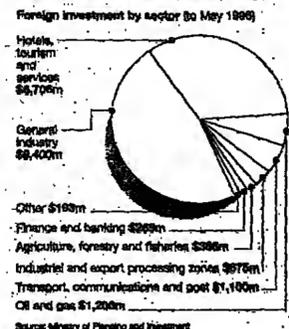
Mr Mai Liam Truc, VNPT's general director, said the new system was part of a policy to increase competition in telecoms. "We want to have some diversity to secure our services."

Four contracts with foreign companies, worth a total \$1.4bn, to install land lines in Hanoi and Ho Chi Minh City would be signed soon, Mr Truc added.

The contracts, under negotiation between VNPT and Telstra of Australia, NTT International of Japan, Cable & Wireless of the UK and France Telecom, have stalled because of differences over traffic projections and revenue sharing.

Mr Truc said there would be further delay due to the planned privatisation of a third of Telstra and changes to top management at France Telecom in Paris. "But I don't think it will be a long delay. We'll have the contracts soon," he said.

Vietnam: the main attractions



HEINEKEN WINS LICENCE FOR SECOND BREWERY

Vietnam has granted Heineken a licence to open a second brewery in the country. The Dutch group said yesterday that it and local partners were making a \$190m investment in "a key growth market which is expected to continue to grow in the years to come", writes Gordon Cramb in Amsterdam.

Its Singapore-listed Asia Pacific Breweries affiliate will own 55 per cent of Hatay Brewery, located just south of the capital Hanoi. The local Hatay Food Company will hold 38.3 per

cent, while the remainder is to be owned by Vietnam Brewery, Heineken's existing joint venture operation in Ho Chi Minh City.

The new facility, producing the Heineken and Tiger brands, is due to be completed in early 1999 with an annual capacity of 600,000 hectolitres. While this will be only a third of the size of the existing brewery, it represents a breakthrough in the north of the country where investment approvals have often been more difficult to obtain.

Input of DM450m will mean initial assembly of 72,000 units a year

GM agrees Polish car plant

By Kevin Done, East Europe Correspondent

General Motors, the world's largest vehicle maker, has reached final agreement with the Polish government over its plan to build a car assembly plant at Gliwice, near Katowice, southern Poland.

In an exchange of letters, the two sides have agreed terms for the project, in which GM will invest at least DM450m (\$298m) in a plant initially to produce 72,000 cars a year.

Mr David Herzman, chairman and managing director of Adam Opel, GM's biggest European subsidiary, said building work was expected to start by the end of July and production

begin at the end of 1998.

The Gliwice facility would be an integrated car plant with metal stamping, body welding, paintshop and final assembly. The share of local content would reach 60 per cent after 2-3 years.

The key to finalising the deal was a Polish government decision to establish a special enterprise zone to include the proposed facility.

The GM investment has been welcomed by the government as a source of new jobs in a region restructuring from the old mining and heavy industrial sectors.

By locating the plant inside the Gliwice zone, GM will pay no tax on profits for the first 10

years and will enjoy a 50 per cent reduction in taxes on profits for a further 10 years. Corporate profit tax is 40 per cent in Poland.

The US vehicle manufacturer will also be able to import machinery and equipment for the plant duty-free and will be able to import components duty-free from the European Union.

The 70-hectare site will be purchased at market price, but the local authorities will supply assistance for training and will provide the necessary infrastructure including road and rail connections.

GM is planning to produce a low-cost family car based on the current Opel/Vauxhall

Astra, for sale mainly in the transition markets of central and eastern Europe.

Between 80 and 70 per cent of output will be sold in Poland, the biggest new car market in central Europe, where new car sales have risen 33.8 per cent in the first five months this year.

GM had previously told the Polish government it was examining the possible expansion of the plant in a second phase with the investment of a further DM250m-DM350m to raise capacity to 150,000 cars a year. It would add production of a second range of smaller cars still under development and for sale throughout Europe.

S Korea spurns US tariff pleas

By John Burton in Seoul

South Korea is not expected to make any new trade concessions soon because of its growing trade deficit, in spite of pleas yesterday by visiting US and EU officials to open its car and telecom markets.

Korea has "the most closed automobile market in all of the developed world," said Mr Mickey Kantor, the US commerce secretary, in Seoul. Mr Stefano Micossi, the director-general of the EU's industry directorate, also called for cuts in tariffs on cars and for a reduction of non-tariff barriers, such as easing a complex certification process.

Mr Kantor added that the US "steadfastly and strongly" supported Korea's bid to join the Organisation for Economic Co-operation and Development this year, but noted that only one of the group's six subcommittees had approved Korea's entry so far. The OECD still has concerns about such areas as financial liberalisation, direct investment, intellectual property rights protection, labour rights, and environmental standards.

Korean officials responded cautiously to demands for the immediate lowering of trade barriers. "The US and Korea have the same goal as far as market liberalisation is concerned, the only differences

have to do with timing and speed," said Mr Lee Suk-chee, the minister of information and communications.

"This is probably the worst possible time for the US and the EU to demand a market opening because of Korea's widening trade deficit," said Mr Eugene Yun, head of research at Deutsche Morgan Grenfell in Seoul. The government predicts that the trade deficit could reach a record \$11bn this year.

Both the US and EU have complained about the limited number of foreign cars sold in Korea.

Korea imported 6,000 vehicles from the US and 4,200 from the EU last year, while it shipped 161,000 cars to the US and 130,000 to the EU.

Mr David Muir, head of Lockheed Motors in Korea, which sells General Motors cars, predicts that foreign carmakers could gain 7 per cent of the market, as much as they hold in Japan, within five years.

The US and the EU are also seeking an expanded opening of the Korean telecom market, which has been dominated by domestic equipment manufacturers. The EU yesterday held a new round of talks in Seoul on telecoms procurement issues after it filed a complaint with the World Trade Organisation last month on market restrictions in Korea.

Unions urged to play bigger role

By Robert Taylor, Employment Editor, in Brussels

Mr Michel Camdessus, managing director of the International Monetary Fund, yesterday urged trade unions to make an active contribution towards maximising the benefits of globalisation.

Making the first speech by an IMF head to the International Confederation of Free Trade Unions, Mr Camdessus said trade unions had a key role to play in the growth of the global economy. "The world's common good will be greatly helped by the unions using their strength and their place at the table to help workers adapt and engage employers and governments in dialogue to ensure that those who are unemployed through structural change are helped to retrain, to find new jobs and to carry their entitlements from job to job," he said.

Mr Camdessus spoke of the positive impact of trade liberalisation in front of a union audience seemingly hostile to the development of a more global economy. "Companies that invest in plants in developing countries generate increased demand for parts and inputs from the developed countries where the investment originated," he said. However, Mr Camdessus recognised union fears that a

global labour market allowed low-paid workers in developing countries to undercut wages of the less skilled workers in developed countries. But he said part of the solution lay in increasing economic growth rates to "sustainable levels and reducing the range of fluctuations which have reduced firms' willingness to invest and employ more workers".

However, the IMF director said "the permanent pressure of strong trade unions" in dialogue with governments and employers internationally was necessary to ensure higher growth and employment. "Countries need to adapt to the reality of the marketplace," he added.

Mr Camdessus acknowledged that the market alone was not sufficient to solve global problems. "We also need the hand of justice guaranteed by the state," he said. "This sets the framework under which markets can work reliably and efficiently, including the rules governing workers' rights."

Mr Camdessus' views of globalisation were not shared by Mr Bill Jordan, the ICFWU's general secretary. He said the global market was being driven by "economic warriors, without compassion or conscience" who were creating "a world where greed is a virtue and competition a religion".

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THE ULTIMATE DRIVING MACHINE

Genetic conflict

Research into breast cancer has highlighted concerns about the use of information, says Clive Cookson



When Jeremy Rifkin, a long-standing campaigner against the biotechnology industry, launched a world-wide "genetic rights movement" in Washington last month, two particular genes acted as a focus for the 250 organisations taking part: the breast cancer susceptibility genes.

BRCA-1 and BRCA-2, as they are called, have crystallised concerns about the handling of human genetic information - for example, whether the discoverers of new genes should be allowed to patent them; how genetic tests should be made available to patients; who else should have access to test results; and how people should be protected against the misuse of genetic data by insurers, employers and others.

The international competition to identify the first breast cancer gene was probably the most publicised scientific "race" of the 1990s. And when the winners - Myriad Genetics, a Utah-based biotechnology company, working with the University of Utah - promptly sought a very broad patent over BRCA-1 in 1994, there was considerable disquiet. Opposition came not only from "genetic interest groups", arguing that genes are natural human blueprints which should not be patented, but also from other scientists who had co-operated with the Utah group during earlier stages of the research.

"What they did to their collaborators was quite offensive," says Gordon McVie, director of the Cancer Research Campaign, a UK charity. "We were incensed when, having contributed all the UK families to help this group get the structure of the gene, we were suddenly shunned. I don't think there has been a better example of what scientists fear about the commercialisation of their work."

Then, last December, the Institute of Cancer Research and Cancer Research Campaign held a news conference in London to announce that their researchers had won the

race to find the second gene - only to be trumped by a statement from Myriad later the same day, saying that it had got there first. Although both groups have filed patent applications on BRCA-2, and earlier this year there were tentative discussions between them over working together to exploit the discovery, Myriad says it is sufficiently confident about the strength of its claim to proceed on its own.

But CRC Technology, the charity's technology transfer arm, is standing firm. "We believe that we have a very strong position on the patenting of BRCA-2 and we are in discussion with the academic and commercial sectors about the best way to exploit the technology, first for diagnostic tests and then for therapeutics," says Emma Plummer, a business manager with CRC Technology. "We do not want it to come to a big patent battle in the courts, but if neither side backs down it could come to that."

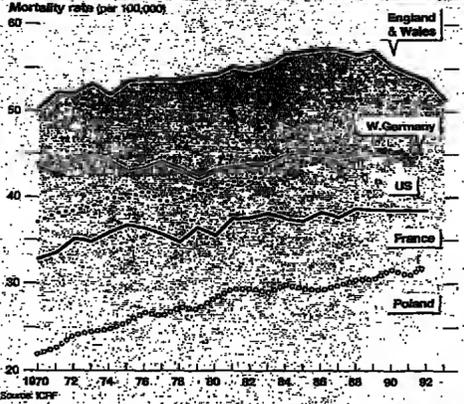
McVie says CRC is looking for "a partner robust enough to take on Myriad and establish a cross-licensing deal so that they do not have a monopoly on both genes".

Although there are almost certainly other "breast cancer genes" waiting to be discovered, BRCA-1 and -2 are responsible between them for most cases of familial breast cancer, the inherited form of the disease that particularly affects younger women.

Research by the US Centres for Disease Control, published in the journal *Cancer* this month, suggests that mutations in the two genes are responsible for 7 per cent of breast cancer cases - and 10 per cent of ovarian cancer - in the general population. The proportion of women with breast cancer carrying one of the defective genes ranges from 33 per cent in the 20-29 age group to 2 per cent in the 70-79 group.

In fact, talking about breast cancer genes is an oversimplification. Everyone carries two copies each of BRCA-1 and -2. When functioning properly, both produce a protein that helps to suppress the growth of cancer cells in the breasts and ovaries. Researchers have identified

The breast cancer toll



more than 100 mutations of both genes. A woman who inherits one defective version of the gene in all her cells, because of an inherited mutation, is vulnerable because the second copy may be damaged, for example by exposure to environmental carcinogens, in a few cells. Then the brakes on uncontrolled proliferation are removed and she is likely to develop cancer.

Scientists from Vanderbilt University and the University of Washington recently suggested that BRCA-1 enables breast and ovarian cells to secrete a protein that suppresses tumour growth. This could potentially be developed into a valuable anti-cancer drug; if so, Eli Lilly, the US pharmaceutical giant that has licensed therapeutic rights to Myriad's BRCA-1 patent, will be in a strong position.

But most of the important scientific questions about the breast cancer genes are still unanswered. No one knows what BRCA-2 does, how its biochemical pathway relates to that of BRCA-1, or why these genes affect cancer in some tissues but not in others. (BRCA-2 is much less active than BRCA-1 in the ovaries but appears to be responsible for some prostate cancer in men.)

Meanwhile, Myriad is about to start final trials of a diagnostic test for BRCA-1 at 14 cancer centres; its commercial launch is expected late this year. The company says a combined test for BRCA-1 and -2 will be available next year.

But non-commercial testing for breast cancer genes is already under way at several centres. The Royal Marsden hospital in London offers a BRCA-1 test with support and counselling for women with a strong family history of breast cancer (at least four previous cases in close relations less than 60 years old) and it expects to begin testing for BRCA-2 within two months.

"Many women with a strong family history of breast cancer suffer great anxiety through not knowing whether or not they have the defec-

tive gene," says Ros Beles, who runs the Royal Marsden's genetic testing programme. "The test can, for those who want it, do much to relieve that uncertainty."

Peter Meldrum, chief executive of Myriad, says his company's commercial tests will "only be available through a physician, with appropriate counselling". There is no question of such tests ever being sold over-the-counter.

Even so, some patient groups, such as the US National Women's Health Network, claim that in the present state of medical knowledge, testing offers women few advantages and many possible adverse effects - including "devastating psychological effects" not only on the individual being tested but on her whole family. "Until we have effective prevention strategies, tests for 'cancer genes' benefit mainly the commercial companies that market them, who stand to make huge profits by exploiting women's justifiable fear of cancer," they say.

Mike Stratton, leader of the international team that discovered BRCA-2 at the Institute of Cancer Research, London, agrees that there is still much medical ignorance - for example about the psychological consequences of testing and the best preventative tactics for carriers of breast cancer genes. Some young women go so far as to have "preventative mastectomies" - both breasts are removed surgically to reduce the risk of cancer - while others settle for frequent monitoring.

But Stratton adds: "We are living in a society that has given people more and more information about themselves. It is very paternalistic to start saying we don't think you should have access to this particular information."

And there are positive aspects of screening, most notably for women who find that their genes are normal and therefore they are not at unusually high risk of developing breast or ovarian cancer.

One risk of genetic testing emphasised by Rifkin's Foundation on Economic Trends is that the results could get into the wrong hands - particularly those of health and life insurance companies. The threat of being deprived of health insurance is more serious in the US than the UK where the National Health Service provides a medical safety net.

On the issue of genetic privacy, Myriad agrees with Rifkin's campaign. "Thirteen states [in the US], including California and New York, have passed legislation preventing insurance companies making use of genetic information," Meldrum says approvingly. "We strongly support any legislation that prevents the misuse of genetic information."

The series on human genes continues next month with a look at heart disease.

Worth Watching - Vanessa Houlder



Lighter stretcher to the rescue

A lightweight, inflatable stretcher could speed up mountain rescues by allowing the search party to carry the casualty to safety without waiting for a separate stretcher party.

The stretcher, designed by students at London's Royal College of Art, weighs less than 4kg and can fit into the standard mountaineering rucksack of a search party member.

The stretcher consists of two canisters of polyurethane foam and an uninflated nylon fabric stretcher. The rescuer injects foam into the fabric which expands and hardens to form the stretcher; the canisters then become the stretcher handles. The cost of the stretchers would be £200, if mass-produced.

Royal College of Art, UK, tel 44 (0)171 5845020; fax 44 (0)171 584 8217.

Inspection for undersea pipeline

Undersea pipelines are traditionally inspected using a video camera attached to a remote-controlled vehicle travelling inside the pipeline tunnel. *Paul Taylor writes.*

But these systems are slow and labour intensive as they involve viewing many hours of video tape of barely visible images.

Now Silicon Graphics, the high-performance computer manufacturer, Norskite Shell, the Norwegian subsidiary of Royal Dutch/Shell, and Morrison McLean, a Scotland-based software developer, have introduced a simulated virtual reality system that was used to inspect the recently completed 3.7km Shell Troll pipeline tunnel under the North Sea.

The system, based on a Silicon Graphics Onyx computer system, can pinpoint a fault using remote sensors which feed data to a

computer model. The features are then mapped on to a 3D model of the tunnel.

Silicon Graphics: UK, tel (0)1734 257925; fax 011734 257365.

Reading the ripples in Forex trading

Foreign exchange traders could gain new insights into options pricing theory from studies of turbulence in fluids, according to a report in today's *Nature*.

The action of long-term foreign exchange traders, who watch the market only from time to time, is known to influence the behaviour of short-term traders, who study the market continuously.

Researchers at the Institut für Physik in Basel in Switzerland have found that the way that information cascades from long to short timescales in financial markets has a parallel in hydrodynamics, in which energy is dissipated through a hierarchy of eddies of decreasing sizes.

Although it is unlikely that the foreign exchange markets could be modelled entirely using equations similar to those that describe fluid flows, the researchers believe they have found a conceptual framework for understanding the short-term dynamics of speculative markets.

Institut für Physik, Switzerland, tel 41612673743; fax 41612673784.

Diesel wax crystals made to wane

Research conducted by Danish and Israeli scientists into crystal formation is expected to lead to new additives for diesel fuel. This could tackle the build-up of wax crystals in engines and pipes that cause particular problems in cold climates.

Scientists at the Weizmann Institute in Israel, Copenhagen University and the Riso National Laboratory in Denmark made X-ray studies of the formation of hydrocarbon crystals in diesel fuels.

The researchers found that the shorter the hydrocarbon chains, the more layers of crystals, and so more wax, it formed. They also found that the build-up of layers of wax crystals could be prevented by adding a long-chain alcohol to the hydrocarbon.

Weizmann Institute of Science, Israel, tel 97289343852; fax 97289341104.

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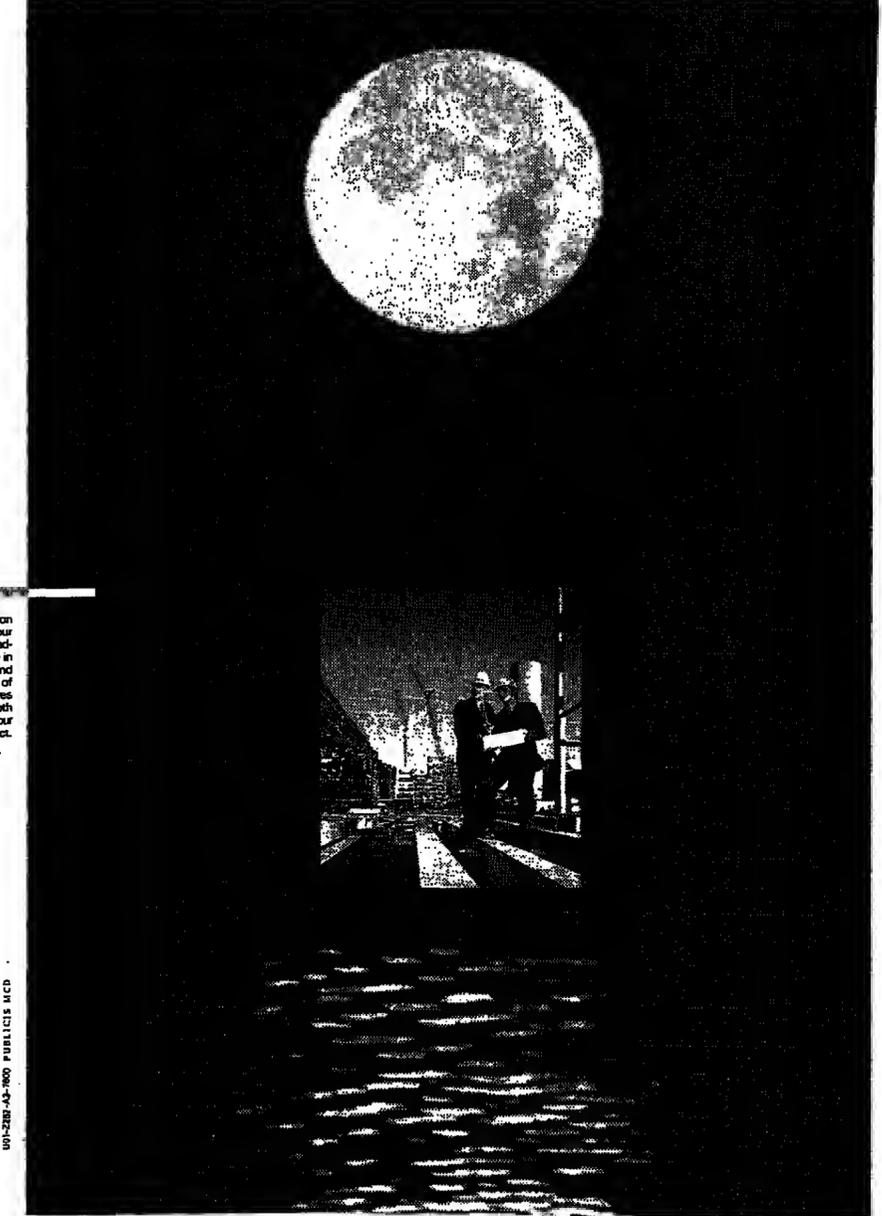
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ARTS

Cinema/Nigel Andrews

Labourled slab of American Gothic

Film critics are a terrible sight in late June. They walk blinking into their darkened Soho preview theatres, ill-clutching appearance and clutching tremulous coffee cups. They know that the sun is shining outside and that the air to the south is popping with famous tennis balls. They know too that every other worker in London can at least open a window and listen to a cheeping bird.

We must open our minds to the worst that distributors can send down a projector beam. All the product that they dare not release when moviegoers are actually going to movies - that is, spring, autumn or winter - is uncannily and upended over us midsummer detainees.

This result is a week full of things like *The Passion Of Darkly Noon* and *The Thin Line Between Love And Hate*, where even the titles are a struggle to get through. The first is a slash of American Gothic from Britain's Philip Ridley, who screenwrote *The Krays* before debut-directing the bizarre but interesting *The Reflecting Skin*.

That too was set in a never-never America and was famous for its exploding frog sequence. (If you don't know, don't enquire.) Ridley has now swapped the earlier film's harsh prairies and sexual madnasses for dark forests and, er, more sexual madnasses.

Darkly Noon is the name of the mysteriously injured young man (Brendan Fraser) brought into the tumble-down woodland home of the blonde Callie (Ashley Judd). Though he has survived an attack on his religious cultist family, this stammering Bible-clutcher cannot long survive Ms Callie's tendency to rub ice cubes on her bosom and to wear light, thigh-revealing shifts while repairing the roof.

Soon we are off and running into a plot that could have been written by Angela Carter unproductively teamed with Tennessee Williams. When it is not dispensing labourled, heavy-breathing eroticism, it bursts for moments of magical realism like the giant silver shoe floating down a river

(why?) or the circus folk who suddenly turn up (again why?) in the last scene of mayhem and tragedy. (Ridley in the press notes says we should avoid asking the question why. To which the only response is - why?)

At once overdetermined and underconceived, this is the kind of "grown-up fairy tale" that denigrates both grown-ups and fairies. The first could sue for defamation of intelligence.

THE PASSION OF DARKLY NOON
Philip Ridley

THE THIN LINE BETWEEN LOVE AND HATE
Martin Lawrence

HEAVEN'S PRISONERS
Phil Joanou

MOONLIGHT AND VALENTINO
David Anspaugh

EMPIRE RECORDS
Allan Moyle

the second for attribution of whimsicality beyond even their tolerance level.

Martin Lawrence, a popular black comic actor on American TV who starred in the movie *Bad Boys*, wrote and directed *The Thin Line Between Love And Hate* as well as starring in it. Could he sue himself for dissipation of talent? This so-called comedy thriller plays like *Sunset Boulevard* awkwardly crossed with *Fatal Attraction*.

We begin with a body in a pool and proceed to the flash-backed tale of a woman scorned (Lynn Whitfield). Between this violent alpha and omega there is an entire alphabet, mostly in Greek, of ethnocentric dialogue, obscurely trivial movie references and guest cameos by people we have never heard of. Perhaps it is helpful to be an American television addict. Then again, perhaps it isn't.

A great feature of silly season press shows is shared despair.

Whoopi Goldberg is the best friend, Gwyneth Paltrow is the sister, Kathleen Turner is the stepmother and Elizabeth Big Perkins is the heroine, widowed when her husband is killed by a car while jogging. This actually happened to screenwriter Ellen Simon, Nell's daughter, who here

for those like myself who favour the front row, light from the screen exposing us to our neighbours and to the heartfelt pantomime that occurs during bad films. The independent casts an eye-to-heaven look at the Times to his right. The Times makes sighing noises for the benefit of his right-hand neighbour, the Financial Times. And the FT turns to carry on the same phone, but sees only two critics wrapped in envious sleep.

This was the scenario during much of day two, when we saw *Heaven's Prisoners*, *Moonlight And Valentino* and *Empire Records*.

I have a lot of time for Alec Baldwin, but not 24 hours when he is speaking with Louisiana accent. In *Heaven's Prisoners* he plays a retired cop trying to live a simple married life with Kelly Lynch on the bayous. But when a single-engine plane crashes in the sea, narrowly missing his fishing ketch, it opens a can of worms quite different from those he sells in his neighbourhood bait shop (where he never seems to work).

Guns, beatings and southern gothic dialogue ensue. So do Mary Stuart Masterson as a goodhearted stripper and Eric Roberts as Baldwin's best friend, wearing the most startlingly changeable hairstyle in history. For most of the film it is short and Afro-brained. Then suddenly in the dimly lit, gun-blasting denouement it is thick, lush and nearly shoulder-length. Did Roberts go and make another film in the meantime? Or did his sister Julia steal in to polish off the final reel?

Every actress but Julia Roberts seems to be in the comedy-weeple *Moonlight And Valentino*, except for those who have already done female bonding service in *Waiting To Exhale* and *How To Make An American Quilt*.

We no more believe in schoolteacher Perkins's dazed but jolly togetherness after the accident than we believe in her delayed-action breakdown during a literature class. She stalks in, apris-mourning, with "Well, guys, back to French aestheticism." She walks out moments later, choked again by memory and setting her pupils for homework a "poem without words." We never see



Brendan Fraser in Philip Ridley's 'The Passion of Darkly Noon'

adapts her own play. But while we offer sympathy for the reality, the re-enactment is a long and losing battle with triteness.

Empire Records is, *foute de mieux*, as good as the week gets. That is, bad but fun. The girls and boys who run a take-over-threatened New Jersey record shop fight back with songs and collection buckets, while also taking time to sort out their love lives. Bright and quirky performers - Liv Tyler, Anthony LaPaglia, the Rowan Atkinson lookalike Robin Tunney - make the time pass

quickly. Or possibly by late Tuesday we had lost all sense of time anyway.

One can always flee to Golden Oldie land. Hitchcock's Quebec-made *I Confess* (15), which inspired the new Robert LePage mystery thriller-cum-movie meditation *The Confessional*, is revived at the Renoir. And at the Empire, Time Out magazine has sponsored a week-long centenary programme, continuing until Monday, of films including *L'Atalante*, *Schindler's List*, 2001 and the inevitable, unstoppable *Citizen Kane*.

tenderness of Pierre. Ronan Vibert's *Andrei catches the man's dignified exterior*, and the degrees to which his manner thaws or freezes; but it is an unrelentingly tense and simplistic characterisation.

The best pleasure of the acting comes from watching people playing more roles than one. Rakie Ayola is a handsome, malicious, sinister, vain Hélène and a silly, futile Mile Bourlenné. John Warnaby is both Bonaparte and Boris Brubestokoy, Peter de Jersey is both Petya Rostov and Anatole, Cattryn Bradshaw is both Andrei's wife Lisa and Natasha's cousin Sonya, and each of them are charmingly right in either role.

Fête de la musique, Paris

'Jenufa' adds to the spirit

If nothing else, it is a noisy event. All day the traffic in central Paris is at a standstill. By mid-evening the Métro is bursting at the seams and crowds fill the pavements. Around midnight hoisterous packs of roller-skating youths start roaming the city and the air resounds with competing police sirens.

This is the annual "fête de la musique" - Around 550 "manifestations" were expected in advance, most of them informal groups setting up on the pavement and often playing into the early hours. To join in the spirit four of the city's opera-houses were playing interesting productions over the weekend.

As so often in recent years, the one that aimed highest was the Théâtre du Châtelet with its ambitious new production of Janáček's *Jenufa*, which imported a foreign symphony orchestra to be in residence for the ten-day run of performances. Money is no obstacle to artistic excellence in this city.

The Châtelet has done this before (and will do so again) with the Philharmonia from London, but on this occasion the visitors were the City of Birmingham Symphony Orchestra and Simon Rattle - a choice fully vindicated by the impassioned performance they delivered at the opening night on Thursday. Rattle has conducted other Janáček operas and is developing his own view of the music, more earthy and red-blooded than Mackerras, the west's resident Janáček specialist.

With his own orchestra, well rehearsed and playing with that incandescent spontaneity that is a special mark of their partnership, Rattle led a *Jenufa* that opened its heart to the music. This was also the first performance of the opera in Paris to be sung in the original Czech.

There were two outstanding individual portrayals. Philip Langridge is a vivid example of the singer who has absorbed the rhythms and angularity of Janáček's music and welded them to a modern physical response to the drama. His Laca was a man of frightening intensity barely under control, second cousin to his Peter Grimes. As at Glyndebourne, Anja Silja was a compelling Kosteláček, whose physical performance equally avoids any standard operatic clichés.

Between them, they dominated the stage. This was a bare production in a standard modern style, which refused to admit any Czech elements that might have been construed as picture-postcard folkiness. The producer, Stéphane Braunschweig, concentrated on states of mind, although he failed to peer very deep into Jenufa herself, who remained simply a demure girl in Nancy Gustafson's quiet performance. Graham Clark's Steva and Menzi Davics's grandmother played two more idiomatic Janáček characters.

At the Opéra Comique one could less happily see a national style in decline. A new production of Bizet's *Carmen* in the delightful opera-house where it had its first performance seemed a good

idea, but perhaps it was too much to expect that the opéra-comique spirit of 1876 could be conjured today. The strongest aspect here was the exciting orchestral performance, conducted by Lawrence Foster. He was using the version played at the premiere, which was interesting in itself.

The rest exhibited as much energy as if the opera had been running without a break for the last 120 years. The producer, Louis Erlo, had decided to give the opera a "new slant" by going against its obvious spirit wherever possible. So Carmen did not dance or play her castanets. The cigarette-girls did not brawl. Passions did not run high; indeed they barely ran at all, minus Rastina Karnets's promising young Carmen seem even cooler than her own nature might have demanded. Luca Lombardo's Don José had intensity but not grace. Annick Massis was a bright-voiced Micaela in the Gallic style - the only link with French tradition.

At the Opéra Bastille the *Simon Rattle and his orchestra delivered an impassioned performance*

new production was Bellini's *Norma*. This was the sort of evening that one might meet at any of the world's grander opera-houses, in which star soloists fly in to take their places in a well-oiled, uncontentious staging. In fact, given the difficulties of getting *Norma* to work in the theatre today at all, Yannis Kokkos's simple blend of the romantic and the classical should be deemed a positive success. His beautifully-lit woodland setting was most atmospheric.

There was no risk of a forest fire, however. A well-chosen cast, supported by a trim conducting from Carlo Rizzi, went through their paces without the spark that might have set the drama alight. Susanna Mentzer was a warm-voiced and flexible Adalgisa. Franco Farina brought some power but less than military precision in intonation to the role of the Roman proconsul, Pollione. Dimitri Kavrakos was a sturdy Oroveso. But all eyes were inevitably on the Norma of Carol Vaness, who sings the music as well as anybody in the last couple of decades and might make the role her own, if she can learn to stamp her own personality on it.

All this, and no time to catch a rare production of Gluck's *La clemenza di Tito* (not Mozart's) at the Théâtre du Champs-Élysées. By next weekend the Opéra Bastille will be on its next revival, Strauss's *Salome*. The Palais Garnier, the city's grand opera-house, had just finished *La Cenerentola*. The amount of opera in Paris is astonishing. How long will government support at this level last?

Richard Fairman

Theatre/Alastair Macaulay

Roller-coaster 'War and Peace'

props are used. Even a fan is indicated by a knife, a fork, and a spoon - the implements sprayed out to indicate both a fan's function and its absurdity. Scenes are sometimes overlapped, to the extent that Prince Bolkonsky tells his daughter Maria that Andrei is dead right on the duel in which Pierre shoots Dolokhov.

Most striking of all, the Shared Experience style is especially expressionistic at times, with characters expressing their fantasies in stylised physical movement. For example, the slight edge of self-flagellation with which Maria addresses God is indicated in physical terms (even in the exaggerated way she crosses herself), and the way - in the middle of her prayer - she is half-frenzied by an imaginary (blindfolded) man is conveyed in a brief, tense *pas de deux*.

Those who know the novel cannot help but miss certain episodes. I can bear the near-total removal of Tolstoy's post-Schopenhauer meditations on history and free will, but I cannot help missing the ways in which his post-romantic reflections on life and death sear the novel. The most reduced character is Andrei, whose

tragic morbidity and final sense of the sublime are turned into mere English tight-lipped repression.

Anne-Marie Duff emphasises the fertile, ardent, and transparent selfishness of Natasha. The character, though more irritating than in Tolstoy and too breathily girlish, has a riveting intensity. Richard Hope conveys the bearish unsophistication and

the pioneers of Dada, in the Galerie Dalmau in Barcelona in 1922; to Jul 1

INTERNATIONAL ARTS GUIDE

- AMSTERDAM**
EXHIBITION
Van Gogh Museum
Tel: 31-20-5705200
● Van Gogh drawings, part I: each summer for the next four years the Van Gogh Museum will publish a volume of the catalogue of its collection of Van Gogh drawings. To mark each publication, a summer exhibition will be held; to Sep 15
- BARCELONA**
EXHIBITION
Fundació Joan Miró
Tel: 34-3-3291908
● Ping Pong: exhibition of paintings by the artists José Aja, Yves Bélangier, Ignacio Hernandez and Mirella Kossar; to Jun 30
- BERLIN**
EXHIBITION
Altes Museum Tel: 49-30-8301332
● Fascination der Antika: The George Ortiz Collection: exhibition of more than 280 Egyptian, Greek, Roman and Byzantine objects from

- the George Ortiz Collection. Special emphasis is laid on the artistic developments in Greece from the beginning of the Neolithic to the time of Alexander the Great; to Jun 30
- OPERA**
Kornische Oper Tel: 49-30-202600
● Die Fiedermaus: by J. Strauss. Conducted by Shao Chia Lu and performed by the Kornische Oper. Soloists include Schellenberger, Korovina, Neumann and Sander; 7.30pm; Jun 28
- BONN**
DANCE
Oper der Stadt Bonn
Tel: 49-228-7281
● Ein Sommernachtstraum: a choreography by Yori Vámos to music by Mendelssohn, performed by the Ballet Bonn. Soloists include Bondar, Moussatov, Fanari and Mamrenko; 8pm; Jun 28
- CHICAGO**
EXHIBITION
Art Institute of Chicago
Tel: 1-312-4433600
● D.H. Burnham and Mid-American Classicism: celebrating the 150th anniversary of Daniel H. Burnham's birth and his contributions in shaping Chicago's downtown district, the Art Institute presents this exhibition of approximately 100 drawings; to Sep 2
- COLOGNE**
EXHIBITION
Museum für Ostasiatische Kunst
Tel: 49-221-9405180
● Aus der Welt des Samurai:

- exhibition focusing on the representation of Samurai in Japanese art. Until the mid-19th century these knights were at the top of Japan's social hierarchy; to Jul 21
- EDINBURGH**
EXHIBITION
National Gallery of Scotland
Tel: 44-131-5568921
● Awash in Colour: Great American Watercolours from the Museum of Fine Arts, Boston: this exhibition presents a collection of over 50 watercolours, selected from the holdings of the Museum of Fine Arts in Boston. The display includes works by Winslow Homer, Edward Hopper, Georgia O'Keeffe and John Singer Sargent; to Jul 14
- GLASGOW**
JAZZ & BLUES
Glasgow Royal Concert Hall
Tel: 44-141-3328833
● Jazz Meets The Symphony: a concert which unites the Royal Scottish National Orchestra with a jazz rhythm section, in which pianist/conductor Lalo Schiffrin is joined by Ray Brown on bass and Grady Tate on drums, with solo contributions from trumpeter James Morrison. Opening concert of the Glasgow International Jazz Festival; 7.30pm; Jun 28
- LONDON**
CONCERT
Wigmore Hall Tel: 44-171-9352141
● The King's Consort with conductor Robert King and organist James O'Donnell, soprano Deborah

- York and oboist Katharina Spreckelsen perform Handel's *Chaconne* from *Teisichoros*, Oboe concerto in B flat and three German arias; 7.30pm; Jun 29
- MUNICH**
EXHIBITION
Haus der Kunst Tel: 49-89-211270
● Umbo - Vom Bauhaus zum Bildjournalismus: retrospective exhibition devoted to the work of photographer Otto Umboh, also known as Umboh; to Jul 28
- NEW YORK**
EXHIBITION
Guggenheim Museum SoHo
Tel: 1-212-423-3840
● Mediascape: the Guggenheim Museum SoHo reopens to the public with this exhibition devoted to multimedia and interactive art; to Sep 15
- OSLO**
EXHIBITION
Munch-museum-The Munch Museum Tel: 47-22-673774
● Edvard Munch. Prints from 1866: exhibition of a selection of 131 prints by Edvard Munch from the year 1866, which he spent in Paris. In the workshops of August Clot and Lemerier a number of the artist's most well-known graphic works were printed; to Oct 1
- PARIS**
EXHIBITION
Centre Georges Pompidou
Tel: 33-1-44 78 12 33
● Picasso 1922: this exhibition is a reconstruction of the exhibition organized by Francis Picabia, one of

- the pioneers of Dada, in the Galerie Dalmau in Barcelona in 1922; to Jul 1
- SYDNEY**
OPERA
Drama Theatre, Opera Theatre, Playhouse Tel: 61-2-250-7127
● La Bohème: by Puccini. Conducted by Patrick Summers and performed by the Australian Opera. Soloists include Cheryl Baker and Aiko Nakajima; 7.30pm; Jun 29; Jul 1 (8pm)
- WASHINGTON**
MUSICAL
Eisenhower Theater
Tel: 1-202-467 4600
● Broadway Songbooks: "Puttin on the Ritzy". The Irving Berlin Songbook: the Rainbow Revues fill the stage, which is transformed into a nightclub, with singers who explore Irving Berlin's music; Tue - Fri 7.30pm, Sat 6pm & 9pm, Sun 3pm & 6pm, Jul 4: 7pm; to Jul 14 (not Mon)
- ZURICH**
OPERA
Opernhaus Zürich
Tel: 41-1-268 6666
● Eugenia Onegin: by Tchaikovsky. Conducted by Franz Welser-Möst and performed by the Oper Zürich. Soloists include Mirella Frani, Stefania Kaluza and Jitka Saporová; 8pm; Jun 28

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European Money Wheel
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Financial Times Business Tonight

COMMENT & ANALYSIS



Peter Martin

A profitable course to take

With growing demand for lifetime learning, there is a business opportunity to create a strong global training brand providing portable standards of achievement

This article contains a business idea that will make someone rich. But first - now that I've got your attention - a bit of background.

In case you didn't know it, this is European Life-Long Learning Year - just one, bathetic, example of how the developed world's politicians are failing over themselves to promote skills training. It is the only way, they say, that western labour can hope to compete with the lower-cost, highly motivated workers of east Asia. The US has its grandly titled Goals 2000: Educate America Act. France has higher incentives for apprenticeships and new technical training colleges; British politicians from all three parties promise new schemes to encourage more and better training.

The message is that individuals are going to have to take responsibility for training and re-training themselves over their whole working lives. So here's the business idea: branded training.

Doesn't sound very sexy? Bit of a bore? Well, consider. Until Ray Kroc came along, fried food was the stuff of mom-and-pop diners and backstreet fish and chip shops. No glamour there. Now, McDonald's is one of the classic growth stocks of the post-war era. Its storefronts are everywhere, and the company is valued at \$35bn (£23bn). The essence of Ray Kroc's insight was that a business hitherto seen as essentially messy, individualistic and atomised could be standardised, systematised and branded, first on a national scale, then on a global one.

So what's so different about training? Why has it largely remained small scale and unbranded? We'll come to that in a minute. First, some examples of companies that have already established a branded presence in training: Berlitz, British School of Motoring and the Kumon Institute.

● Berlitz has been best known in recent years for its unfortunate role as one of

Robert Maxwell's victims, but is now two-thirds owned by Fukutaka, Japan's biggest correspondence course company. Its network of 315 language schools spans 30 countries, with a standardised approach: an emphasis on native-language teachers and the "direct method", in which all interaction with the pupil takes place in the language being taught. Revenues are more than \$300m a year, and Fukutaka has ambitious expansion plans.

● British School of Motoring has turned what is in most countries a highly fragmented business into a systematised, branded one. Its 2,000 self-employed instructors have 15 per cent of the UK driving-lesson market.

The group lobbied the government to introduce the new driving theory examination to supplement the practical test. Now that the theory exam is compulsory, BSM may well be better placed than smaller rivals to teach it. Despite its strong national brand, its revenues are still small: pre-tax profits were £5.4m in 1995 on sales of £24m.

● The Kumon Institute teaches children mathematics (and other subjects) through a core set of principles, a standardised set of worksheets

and a network of franchised evening schools. Its founder, Toru Kumon, set it up in 1958; it now has 1.6m pupils in Japan and another 500,000 overseas, with revenues of more than \$500m a year.

Those examples show that branded training can be a profitable business - but they also suggest that so far it has been confined to narrow niches, with relatively limited potential revenues. What are the reasons for that? And are they about to change?

The biggest reason why branded training has not yet taken off is the lack of an imperative driver of demand. Historically, people have been educated once in their lives, between the ages of five and, at the latest, their mid-20s. The financing of this early education has come from parents and government, rather than from the individuals themselves.

Most people still have not made the shift to a world in which they will need to be continuously re-educated or trained, let alone to one in which they will need to take responsibility themselves for that re-training. They expect their employers or the government to carry the burden. Narrow areas such as language

and driving lessons are among the few exceptions to this rule.

Intriguingly, the one broader educational product for which users are willing to take on the responsibility of choice and finance is the MBA course - and here we have seen the emergence of some brand characteristics and even the first tentative steps towards globalisation.

Will other areas of training follow the same process? Your guess is as good as mine: not every apparently inexorable trend really pays off. But all the trend-watchers seem to agree that demand for training will rise steadily over the decades to come. So let us take that underlying demand for training as a given. It is less clear, however, that it will result in a market susceptible to McDonald-style systematisation and branding.

It has not so far, after all, because of two other unusual characteristics of the marketplace. The first is the role of intermediaries: governments and employers. Not only do they largely set the standards that trainers must meet, they also act as large-scale suppliers of subsidised training. It's tough for private-sector businesses to compete with that. Kumon maths teaching largely exists in the interstices of that system, supplying "top-up" education to children the state system is not serving very well.

An opportunity for branded trainers, however, lies in the increasing pressure on governments to withdraw subsidies from these areas, as the fiscal squeeze bites, or to privatise their provision. Another opportunity beckons as companies are less willing to guarantee lifetime employment.

There will be increasing desire on the part of workers for a portable standard of achievement - one that branded training can supply.

The second aspect of the market is that standards are largely set on a national (in some cases regional) basis. Although most skills are now,

in principle, globally transferable, standards-setting bodies operate locally. Teaching someone to drive a car is pretty similar all over the world; teaching someone to pass a driving test is quite different in, say, Basingstoke and Baltimore.

Still, that's an opportunity as much as a problem: it allows would-be branded trainers to set their own standards and teach them consistently around the world - potentially a strong competitive advantage. After all, the local standard for fast food varied widely from country to country until McDonald's homogenised it. The very act of creating a global standard for fast food served as a marketing advantage for McDonald's.

So here is the business opportunity: to create a strong global training brand, with a clear set of core principles and a standardised approach to quality, success measurement and process. The business model will probably be some form of franchising, with a clear distinction between the tight central control of intellectual property and system, and the loose approach to local issues such as personnel management, wages, marketing and so on.

In the short run, the training company will use its brand to enhance the qualifications set by national bodies or employers. In the long run, it can hope to see its own branded diplomas replace or supplement national equivalents.

Who will be the branded trainers of the future? It's hard to say. The most obvious candidates - educational publishers - are usually had at the sort of hands-on people skills that will be required to get the branded training franchise up and running. But someone will do it. And it would be a nice irony if the approach that McDonald's has taken in fast food could provide the training needed for workers to escape from the hamburger-flipping McJobs that otherwise beckon.



Book Review Tony Jackson

REBELS AGAINST THE FUTURE: By Kirkpatrick Sale
Addison Wesley, 320pp, \$24

Neo-Luddite cry in the computer age

One of the most enduring quirks in human nature is the belief in a golden age.

The term may have been coined by the ancient Greeks, but the idea goes back to the expulsion of Adam and Eve from Eden. While the story takes many shapes, the gist remains the same: things are not what they were, and the world is going to the dogs.

Kirkpatrick Sale's golden age is 18th century England: a land of happy and prosperous craftsmen, with a grandfather clock in every parlour, Staffordshire china on the dresser and a vegetable garden at the back. Within a generation, we are told, all that was swept away. The land was darkened and the people enslaved by The Coming of The Machine.

It is now happening again, only worse. The signs of the second industrial revolution are manifest: acid rain, bio-engineering and transnational corporations. So is its cause: The Coming of The Computer.

Sale's book falls into two parts. The first is a history of the Luddites, a group of English workmen who mounted a brief, violent campaign against machines and their owners from 1811-14. The remainder is a rallying cry: the raising of the neo-Luddite standard in the age of the microchip.

The differences between the two parts are instructive. The Luddite section is a conventional narrative, useful if slightly specialised. It is, of course, biased: but bias is inherent in history and has the virtue here of being explicit.

The remainder is more interesting and more problematic. We have all been repelled by the works of industry at one time or another, and few would rather look at a factory than a field. As wilding consumers, we know this is in part irrational: but the neo-Luddites, Sale tells us, are explicitly opposed to rationalism.

He is thus in the awkward

position of constructing an argument in defence of an emotion. The result can be somewhat tangle.

His starting point is what economists call the "lump of labour" fallacy. This states that there is only a finite amount of work to go round. Once the machines have grabbed it all, the rest of us are left sitting on our hands.

The logical snag is that after several millennia of technological advance, people are still working. Indeed the US, the world's most technologically advanced society, has virtually full employment.

Sale's defence is to deny this employment is real. The origins of this argument lie - once more - in the 18th century, this time in France. In its pure form, it says the only productive work consists of extracting produce from the earth. All other work is sterile.

Sale seems to think real jobs are being exported to the developing world through a conspiracy between the multinational corporations and the World Bank. This has polarised US society into two equally unproductive groups: a handful of computer and financial experts on top and an army of impoverished hamburger-flippers below.

The picture is rather at odds with the fact that the US is also a net exporter of food and many basic manufactures. But it is central to Sale's argument for another reason. If technology causes the export of jobs, it follows that computers are responsible for production wherever it takes place. They are therefore to blame for damage to the environment worldwide. Since that damage is cumulative, it is logically finite, therefore, technology must fail.

Deny that premise and the fallacy is obvious. Artificial intelligence makes no claims on the environment. It is literally immaterial, a thing of digital bits. It employs some hardware as a medium but even that is shrinking through min-

istrualisation. Computers do not cause forests to be levelled in Brazil, or chemical plants to be built in China. These are the effects of the first industrial revolution, still working its way round the globe. If anything, today's technology can help clean up the mess.

If playing the environment card is something of a dodge, one can see what prompted it. The real damage done by the information revolution is social job cuts, family stress and the anxiety of rapid change. But capitalism goes through those convulsions of regular intervals and survives. The first industrial revolution was horrible, but the Luddites failed.

Whether the neo-Luddites fail depends on how they measure themselves. They will not cancel human ingenuity, or resurrect an imagined past. They will not even abolish the computer.

They can, however, hope to modify its use. Sale may be cranky but he is on to something. The Luddites were opposed to "all Machinery harmful to Commonality". For all its problems of definition, that has a certain moral force.

But that raises a question which Sale is too much of a libertarian to address: whether governments should restrain technology in defence of society, as they are beginning to in defence of the environment. It seems a tricky proposition, particularly as the revolutionary effects of the computer will eventually play themselves out, as did those of the steam engine.

That leaves Sale's prescription for individuals: scrutinise any new technology for possible harm, and if need be reject it. For most of us, already ensnared by the computer, that is not an option. It is not a bad rule of thumb all the same.

Rebels Against The Future is available from FT Bookshop by ringing FreeCall 8000 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171 573 5338 (please set fax to 'line'), e-mail: letters.editor@ft.com. Translation may be available for letters written in the main international languages.

HOW TO MAKE A MONEY BOX.

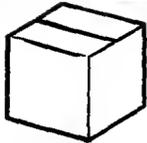


FIG 1.



FIG 2.



FIG 3.

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A clue as to why growth in Japan leaped ahead

From Mr Brian Reading.
Sir, Your article on Japan's remarkable first quarter gross domestic product growth missed one important factor - "Japan's economic recovery - a miracle or a mirage?", June 20).

The Economic Planning Agency figures are not adjusted for the number of days in the quarter. Reuters, following an EPA press conference on June 18, reported that "the EPA also said the fact that 1996 is a leap year helped push up GDP in the first quarter", and "the extra day contributed to 0.5 per cent of the total". But the total probably referred to 1996 as a whole.

There were 60 working days in Japan in the first quarter, after allowing for regular national holidays (the effects of which normal seasonal adjustments will capture). Had it not been leap year there would have been 59 working days.

The extra day thus added 1.7 per cent to first quarter output (or 0.4 per cent to the year's output). If this is correct, more than half the first quarter's 3 per cent growth was due to leap year. The remaining 1.3 per cent, or 5.3 per cent at an annual rate, is still rapid but not surprisingly so. The much quoted 12.7 per cent annual rate rise assumes there is a leap day in every quarter of the year.

Brian Reading,
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UK

CORRECTION

Gideon Nellen

Mr Gideon Nellen's letter, published on June 22/23, should have read that the "scale of under-charging (of landing fees at Heathrow - and hence the subsidy to airlines) has been estimated at £260m a year".

Linking trade to human rights

From Ms Olivia Q. Swank-Goldman.
Sir, In your editorial "Bonn in the China shop" (June 25) you assert that linking trade privileges to human rights violations is counter-productive and that, on the contrary, "trade and the increasing prosperity that comes with it can be a civilising influence". This is just the sort of argument human rights organisations around the globe have successfully attempted to counter. It is true that concern over human rights can have a negative effect on trade relations, as exemplified by the current debate involving China - in the first instance involving the US by way of Boeing Aircraft, and now the German government. But arguments for de-linking trade

and human rights should be justified on the basis of pure economics and not the skewed argument that linkage is not effective. If it is true that the linkage is less effective than desired, that is because only a handful of states attempt to make it and repressive states are free to turn to less demanding partners for their trade. Thus, the fact that the linkage is made by only a few countries and is therefore not as effective as it could be should not be used as an argument against making the linkage at all.

The argument that de-linking trade and human rights actually leads to an improvement in human rights is, in addition to its neo-colonial tone, inaccurate. The well-respected human rights organisation Human

Rights Watch, in its 1995 World Report, came to just the opposite conclusion. It found that the de-linking of these issues led to a marked worsening of human rights conditions. One need only think of oil-rich, and therefore trade-rich, Nigeria and its execution of minority rights leaders last November to provide a ready example.

If western governments choose not to risk short-term economic interests in the name of human rights and democracy that is their decision. But it should be justified on that basis alone, not on the illusory argument that the linkage is ineffective.

Olivia Q. Swank-Goldman,
Europe Institute,
University of Leiden,
Netherlands

Harmful constraints of a gold standard

From Mr David Peterson.
Sir, Running throughout Michael Prowse's "The golden dream" (June 24), his fanciful history of the gold standard and the role that advocates of its reinstatement would like it to play in relation to the fiscal and monetary tools of a global economy already wrecked on deflationary madness, were a number of comments that captured the real appeal that the precious metal has in the eyes of the statist reactionaries whom Prowse mis-characterises as "conservatives".

The return to gold would establish a "powerful check against governments' desire to pursue inflationary policies". Prowse writes, the term "inflationary" being the key that unlocks the door.

The gold brigade wants us to believe that the Group of Seven economies can be returned to higher rates of growth through a magical elixir that combines one part radically lower taxes (often including the flat-taxes) call for zero taxation on returns to financial capital, and one part re-linking currencies to gold.

Thus, they would tie government's fiscal and monetary hands, preventing it from adopting Keynesian-type spending programmes, particularly on social account. For spending on social account would be inflationary, these keepers of the financial altar complain. That is, it would benefit the wrong class of interests, while putting the value of financial assets at risk. What more devious scheme could one devise to ensure that government expenditures do not get squandered on the wrong class of citizenry, than to equate their material well-being with

the dread "F" word, even as the prices of financial assets soar to the heavens?

"The gold standard, with its general regardlessness of social detail, is an essential emblem of those who sit in the top tier of the machine." Thus wrote Keynes about the transparent motivation of another bout with renier madness, earlier this century.

What else are the Maastricht treaty's fiscal constraints, the US Federal Reserve's obsession with NAIRU (non-inflationary rate of unemployment), and the Right's call for a return to gold, but the subordination of the state and civil society to the sort of deflationary regime demanded by global capital markets?

David Peterson,
9401 S Springfield,
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Objection required in the cause of consistency

From Mr Peter Caze.
Sir, Gauder does not determine an accountant's accountability, therefore - argues Ms Victoria Andrews (Letters, June 18) - Ms Sheila Martins should not be described as "arguably

Britain's leading woman accountant". Well, neither nationality nor geographical location nor, indeed, title, nor name, fixes such ability, so in all for consistency, Ms Andrews should also have objected to

the "Britain", the "Ms", the "Sheila" and the "Martins".

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FINANCIAL TIMES

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Thursday June 27 1996

Death in Dhahran

Tuesday night's explosion at a military housing complex in Dhahran, Saudi Arabia, is the worst terrorist attack on US forces abroad since the destruction of the Marine barracks in Beirut in 1983. The death toll happily is much smaller than on that occasion, but the political implications are potentially much more serious.

The Beirut catastrophe led swiftly to the withdrawal of US troops from Lebanon and the tacit recognition of that country as a Syrian sphere of influence. That was serious but in retrospect can be seen as correcting an aberration in US policy. Contrary to President Ronald Reagan's rhetoric at the time, no vital American or western interest was at stake.

Saudi Arabia, by contrast, is crucial to the security of western oil supplies and to US influence in the whole Gulf region. The Gulf war would not have been fought without Saudi co-operation, and was fought as much to ensure the kingdom's long-term security as to liberate Kuwait. There could be no more direct challenge to American power than a murderous attack on US forces in the heart of the Saudi oil-producing region. Withdrawal from Saudi Arabia is an option no US president would seriously consider.

The Saudi rulers have been glad to keep a western (mainly US) military presence in the country since the war, to make it clear to any potential aggressor, for instance Iran, that western powers are still ready to come to their defence whenever necessary. But they have also been anxious to keep it discreet, knowing it is unpopular within the kingdom. The Dhahran explosion, following the bombing of a Saudi National Guard training centre in Riyadh

last November, confirms that all too clearly.

The Saudis would like to believe this latest attack is the work of Iran, stirring up trouble among the Shia inhabitants of the kingdom's eastern province. For months after the Riyadh bombing they insisted it was an external affair. But last month four Saudi nationals were beheaded after confessing to that crime. They were not Shia Muslims and had nothing to do with Iran. They were militant members of the ultra-orthodox Wahhabi movement from which the Saudi state itself derives. And three of them had seen service fighting communism in Afghanistan.

Only President Ezer Weizman, pursuing an Israeli *tabula rasa*, was yesterday blaming Iran for the Dhahran attack. The more likely, and less comfortable, explanation is that Saudi Arabia faces a highly organised terrorist movement formed by people who condemn the regime for betraying its own origins. Such a movement will not be bought off with small gestures of leniency or liberalisation. Nor, however, will it be easily repressed. Indeed, repression will provide it with martyrs and so help it undermine the regime's legitimacy.

Saudi Arabia is almost as unlikely to succumb to an Islamic revolution like Iran as it is to gobble up one of its small neighbours like Iraq. But over time it may be no better able than either of those countries to sustain the weight of being the bulwark of western interests in a hostile region. Western governments cannot and should not turn their backs on the kingdom. But they would be well advised to limit their exposure there as best they can.

Shares in distress

Those who bought shares in Eurotunnel should have known the risks. In the context of the ambitious civil engineering projects ever undertaken, and there were many precedents to suggest that costs might exceed estimates.

So what have shareholders to complain about, as they crowd into the Palais des Congrès in Paris today, ready to defeat their board with sacks full of proxy votes? French investors, who hold about 70 per cent of the equity, are angry because, after heavy losses, they now face the prospect of ceding a large part of their equity to Eurotunnel's creditor banks.

Although a deal has not yet been reached, it seems likely that the 225 banks will agree to exchange some of the £8.5bn which they are owed for shares, diluting existing shares by perhaps 50 per cent.

Shareholders' distress is at least understandable, for Eurotunnel is no ordinary company. It was a grand, long term project, blessed by the prime minister of England and the president of France. For private investors a bargain was implied by which the authorities would provide revenue from rail services. This support has fallen short of expectations, while the authorities have required the company to meet the costs of exten-

sive modifications for safety reasons. As a result, the company is unable to pay the interest on its debt, and the value of its shares, if any is left, depends on what deal can be struck with the creditors.

However, French shareholders have discovered a desperate weapon. By threatening to frustrate the deal they raise the spectre of bankruptcy. This would be most unwelcome to the banks, not least because of the complexity and uncertain outcome of French insolvency procedures. So although equity holders would usually expect to assume the residual risk, the proposed solution may allow them to share the pain with the banks. In the peculiar circumstances of Eurotunnel this may be fair, since the banks recognised an element of risk in the interest rate they were charging up until September, when payments ceased. And if the banks hold equity instead of debt, the present shareholders will have a better chance of getting at least some return on their investment early next century.

Meanwhile, the UK government could help the process a little by extending the franchise, as France has requested, from the present 57 years to 99. This would be a costless way of recognising the enduring benefits which this private sector project has conferred on both nations.

A debt stand-off

Countries which are struggling to pay off mountains of official debt do not have many things to look forward to, but this week's Group of Seven summit was one of them. After a year of talking about helping debtor nations to grow out of debt, the hope was that leaders assembled in Lyons would at last translate fine words into action.

Almost everyone now accepts that some countries are so indebted that they cannot hope to reduce their debt to sustainable level without some extra help from official donors. This fact alone represents a moral victory for heavily indebted nations, and the non-governmental organisations which have lobbied on their behalf. But the G7 leaders are still far from resolving differences over who should pay for the support, and how.

To address the problem adequately the World Bank, individual donor governments and the IMF need to play their part. To the World Bank's credit, its piece of the puzzle has recently fallen into place, with the board agreeing informally to allocate \$500m (£333.3m) to the debt relief initiative this year and \$200m each year thereafter.

It has been trickier to reach agreement on the second strand of the programme. This is because the bilateral creditors - as represented by the Paris Club - have

already taken some modest steps to write off developing country debt. They are willing to concede further debt-write-downs, but only after the multilateral agencies have agreed to do their bit.

So far, so hopeful. But a stand-off between Germany and the rest of the G7 over how to finance the IMF's slice of the package may yet put a comprehensive approach to debt reduction out of reach.

The IMF wants to sell a fraction of its \$40bn gold reserves to finance its contribution to the debt effort, and put its existing concessional lending facility on a permanent footing. The German Chancellor, Helmut Kohl, will have none of it, believing that it would set a precedent for using gold for any number of good, and not so good, causes, that the US might want to promote in future.

The IMF's gold is an outdated, and under-utilised, resource which could and should be put to better use. One can sympathise with Mr Kohl's concerns about future sales. But the answer is to judge each request on the merits and realities of the case. The reality of this case is that, although the Germans say they would be willing to contribute more money to help the IMF help debtor nations to help themselves, for the other governments, it is gold sales or nothing. Mr Kohl must swallow his pride and agree to the former.

Britain's legal challenge over the EU's legislation setting a maximum 48-hour working week could backfire, warns Lionel Barber

Own goal over extra time

Here we go again. After a brief, bloody war over the safety of Britons' best, the UK government is about to cross swords with the rest of the European Union again - this time over the 48-hour working week.

In the next month, a Portuguese judge at the European Court of Justice in Luxembourg is expected to rule on the UK government's challenge to the EU's directive setting a maximum 48-hour working week.

The narrow legal issue is whether Brussels can use health and safety legislation to push through rules on working conditions by majority voting. But the broader debate is about the regulation of labour markets in Europe - an increasingly polarised issue in the EU.

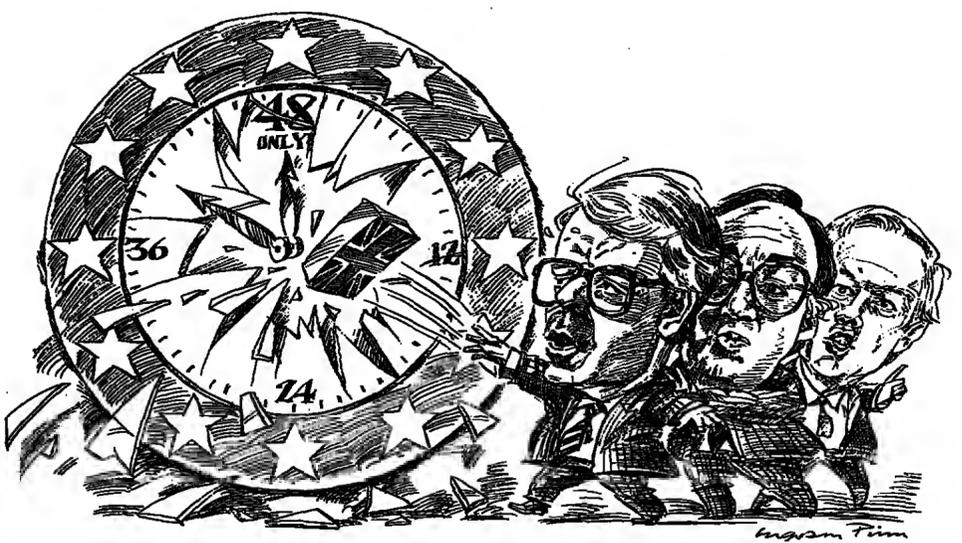
At one extreme stands Britain, seeing itself as an offshore enterprise centre, determined to insulate its economy against costly, middle-class EU legislation. At the other stand the continental economies, eager to improve global competitiveness but also determined to preserve minimum labour standards in the single European market.

The origins of the dispute go back to 1989 when President François Mitterrand, celebrating the 300th anniversary of the French revolution and universal human rights, hit upon the idea of a new "social Europe" to compensate for the dislocation caused by creating the new single market.

The French crusade galvanised the European Commission in Brussels. Mr Jacques Delors, then president of the European Commission, and Mr Vasso Papanastasiou, the activist Greek social policy commissioner, produced almost 50 social policy initiatives, one being the directive on working time.

The UK Conservative government saw the fresh burst of EU social legislation as a reversal for its success in curbing trade union power in the 1980s. Such concerns led directly to Mr John Major's insistence in 1991 on an opt-out of the Maastricht treaty's social protocol.

The final version of the working



time directive was agreed only in November 1993. It obliges the UK for the first time to introduce laws giving mandatory rest breaks after six consecutive hours; a minimum daily rest period of 11 hours; at least one day off a week; no more than eight hours a shift on average for night work; and four weeks' annual paid holiday.

"The directive was social engineering at its worst," says Mr Zygmund Tyskiewicz, secretary general of Unice, the European employers' federation. "It was completely divorced from reality."

However, the UK fought a successful campaign to weaken the legislation and make it much less intrusive. It won exemptions for workers in air, rail, road, sea,

inland waterways and lake transport businesses. Also exempted were junior doctors and priests. A clause banning longer working hours for "economic reasons" fell because of objections from the bakery and newspaper industries.

In addition to these exemptions, the 48-hour working week is virtually voluntary. Employers can encourage them to work longer hours. And the UK government secured a grace period of seven years, delaying the imposition of the maximum working week until November 2000 at the earliest.

Yet despite these concessions, the UK abstained from the final ministerial agreement in November 1993 and promptly announced it was

going to challenge the directive in the European Court. "It looked like bad faith," says a Commission official. "The British negotiated the best available deal with their partners in Europe, but then for domestic political reasons announced they were going to the Court."

Not so, say the British. Their concern is that the working time directive was agreed under Article 118a of the Single European Act. This allows health and safety legislation to be passed by majority voting in the decision-making Council of Ministers. To suspicious British eyes, it looked like a ruse to circumvent the UK's social policy opt-out.

British fears grew this year after an initial European Court opinion from the French advocate general.

He argued that health and safety issues could not be defined in terms of factory accidents or bad vibrations from video display units: "Health is not just a state of physical well-being, it is mental and social, and does not consist of just being free of sickness or infirmity."

And here is the rub for the UK government. If its legal challenge fails, the highest court in the Union will have endorsed a similarly broad interpretation of health and safety and "working conditions". The result might be to encourage the Commission to bring forward more social legislation under the same provisions - all because of a piece of legislation which many believe would have had minimal impact on working lives.

Reluctant step back from the brink

Philip Stephens on how the UK government came close to defying the European Court of Justice

A few weeks ago the European Court of Justice's impending judgment on the 48-hour working week prompted the most extraordinary ministerial decision of Mr John Major's premiership. It was an episode which defied vividly the unprecedented hostility which the working time directive has aroused within the senior ranks of the government.

In an atmosphere of fevered defiance, the cabinet's European policy committee decided that, if the court ruled against it, the government would simply defy the judges' decision. It would refuse to translate the provisions of the directive into domestic legislation.

The few ministers who argued against such a course were stunned that a Conservative administration could contemplate what would be a clear breach of British as well as European law. But such was the anger at the prospect of losing the battle to insulate the UK from Europe's social legislation, it was not until they reconvened on the eve of last weekend's Florence summit that the ministers backed down in the face of a stark warning from Whitehall's law officers.

The first meeting of the cabinet committee on defence and overseas policy (OPD), took place during the first flush of the so-called beef war

at the end of May. All but a handful of cabinet ministers were present. The ministers were told that the European Court would soon deliver a final judgment on the government's case that the directive should never have been tabled under the rubric of the EU's health and safety provisions.

The use by the Brussels Commission of that route had allowed other EU states to outvote Britain in the Council of Ministers, despite the UK's opt-out from the social chapter of the Maastricht treaty. The ministers were told the odds were that the court would endorse the preliminary ruling of the court's advocate-general which had rejected the London government's legal challenge. They were reminded that the World Health Organisation specifically includes

employment conditions in its analyses of public health.

A range of options was then considered. Ministers could bite their collective lip and prepare the necessary legislation. After all, during negotiations two years ago, Mrs Gillian Shephard, the then employment secretary, had succeeded in removing the directive's most restrictive provisions.

Alternatively, they could seek to defer the issue until beyond the general election by delaying the preparation of legislation. In the meantime, the government could use the intergovernmental conference on the future of the EU to seek treaty changes which would close the health and safety loophole. If it was fortunate, such an amendment might apply retroactively.

But Mr Major had just announced

his policy of non-cooperation over the EU ban on exports of British beef. The mood was not for compromise. Several ministers spoke in favour of open defiance. There are some conflicts in the accounts of individual positions. But there is no dispute that the minority in favour of upholding the law was heavily outnumbered by an alliance of the cabinet's Eurosceptics and traditional moderates. More than one supported a suggestion that the non-cooperation policy over beef should be extended to cover a successful resolution of the working time issue. One minister thought the atmosphere "cracy". Another remarked that "swords had been glinting in the sun".

Mr Major shared the anger. He had negotiated Britain's social chapter opt-out. He has always con-

sidered that the opt-out included assurances from the other heads of state that they would not seek to circumvent it. In his eyes, they now stand accused of a grave breach of trust.

The decision, however, provoked visible alarm among the law officers. They reported that such open defiance would inevitably be challenged in the British courts. Just as certainly, the government would be defeated.

By last week, they had stepped up the attack. A briefing note sent to ministers ahead of the second meeting warned that the legal challenge might extend beyond the government. Individual ministers might be held liable by the courts for deliberately denying public sector workers their rights.

The committee retreated, deciding instead on the strategy of delay. Implementation would have to wait until after the election. In the interim, Mr Major would demand changes to the treaty.

It is not clear, however, that the government is yet off the legal hook. It has had ample time to prepare the necessary legislation. Some of its legal advisers believe it could yet be successfully sued for deliberate delay. Ministers are now praying that, against the odds, the court will spring a surprise and rule in the government's favour.

OBSERVER

House and Garden

Mr Timothy Garden, appointed yesterday as the new director of Chatham House, the foreign affairs think-tank, has a tough task ahead.

The Royal Institute of International Affairs, as it is formally called, faces strategic and financial questions only slightly less perplexing than those of Bosnia or Bosnia addressed in its seminar rooms.

Mr Laurence Martin, who retired as director at the end of the year, was confronted with the budget predicament when he took up the post six years ago. His predecessor, Admiral Sir James Eberle had been known as the Red Admiral for his enthusiasm for Gorbachev and détente, slightly ahead of the game by western governments' standards. However, Sir Laurence was heard to remark, in his first days in the job, "I didn't realise the 'Red' in 'Red Admiral' referred to the colour of the ink on the balance sheet."

Mr Timothy will face a similar task of juggling resources at a point when the think-tank's main subjects - such as the future of Eastern Europe or relations with China - are at their most thought-provoking.

Still, he has the credentials, having spent much of his life straddling the worlds of defence and policymaking. Former Royal

Fokker's musical

Mr William van Kooten, the Netherlands' biggest independent music publisher, is familiar with life on the airwaves. The next challenge is to reformulate Fokker, the failed Dutch aircraft maker, with being airborne.

The man who brought the world seasonal 1996 and 1997 staff such as Golden Ketting and Vesna, said yesterday he was trying to recruit banks and industrial partners to save the enterprise.

Potential allies include Aalberts and Intercos-Müller, two Dutch groups with links to the transport business, as well as Spork, which is contemplating a purchase of Fokker's support services.

He acknowledges he is just "a small guy", but seems to want to be seen as "the Dutch Richard Branson". Better known in the Netherlands by a now rather unfortunate tag - "Mr 5 per cent" - Van Kooten has taken stakes of that size in ventures such as a sports TV channel which launches in August, a holding he has already sold to the De Telegraaf newspaper group.

Van Kooten, 55, is trying to

KIO's IOU

The Kuwait Investment Office is finding that some of its Republican friends in the US, its staunchest allies in the Gulf War, are sounding pretty aggrieved. The accusation? That Kuwait is not sufficiently grateful to its saviours.

Former officials in the Reagan and Bush administrations have lobbied a House subcommittee into looking at the question of Kuwaiti business practices "relating to the financial and commercial treatment of US persons".

The subcommittee will look into the sale of facilities owned by Spanish packaging group Sarrío to the KIO for \$400m in 1991. The group alleges that the KIO has not paid in full. Richard Haas, top national security aide for the Middle East in the Bush White House, is on Sarrío's international

Wagner's ring

Obviously a marriage MAID in heaven, Dan Wagner, chief executive of the on-line information service, gave his fiancée Susie Newall 400,000 ordinary 1p shares (a pretty of £1.2m at the end of yesterday). All very touching - and no doubt Newall will smile more sweetly than the curmudgeonly analysts who point out that MAID has yet to turn in a profit. Not a good precedent to set, though - just extra money that could go into the pockets of the lawyers drawing up pre-marital agreements.

100 years ago

A Third Candidate Talked Of The chances of a success of a third Presidential candidate in the United States are being put forward more strenuously than heretofore by those who will vote neither for Major McKinley nor for the Free Silver candidate the Democrats appear likely to nominate at Chicago. A leading Democrat said yesterday: "The Democrats will throw away their chance in adopting a free silver plank, for there are many Republicans so opposed to Major McKinley that they would have been willing to vote for a third-term Democrat in the person of Mr. Cleveland backed by a sound money plank in his platform."

50 years ago

Demand For Copper There has been more disagreement since the beginning of the year over the outlook for copper than for perhaps any other commodity. There is a shortage of supplies which is being accentuated by certain artificial factors. For instance, owing to labour shortage, fabricators now tend to ask for several shapes and sizes from their suppliers. Stocks should be correspondingly increased to cater for these varying requirements.

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Power struggle over 'conditional' resignation Karadzic threatens to disrupt Bosnia elections

By Laura Silber, Balkans Correspondent, and Paul Wood in Pale

Mr Radovan Karadzic, the Bosnian Serb leader wanted on war crimes charges, yesterday drastically raised the stakes in the struggle over whether he would step down from power. Mr Karadzic offered to resign only if the international community met a series of conditions for the recognition of his mini-state, Republika Srpska. But he made clear that he would stand in the Bosnian elections if his demands were not met. Seen as a key obstacle to free elections in Bosnia, Mr Karadzic signed a resignation letter at dawn after a marathon session of the Bosnian Serb leadership...

But Mr Bildt's office last night had not yet received the letter. The timetable for a response is tight because the annual meeting of the Bosnian Serb ruling party, which will draw up an electoral list, meets tomorrow. It was unlikely, however, that the international community would accept the conditions, which violate the Dayton peace plan for Bosnia. Under the plan, suspected war criminals indicted by the UN tribunal cannot stand in elections or hold public office and must be handed over to The Hague. The letter appeared another manoeuvre orchestrated in order to deflect intense pressure. International mediators have threatened to reimpose sanctions on Serbia unless Mr Karadzic disappears from the political scene. Diplomats, behind the scenes, have set a deadline of July 1 for Mr Karadzic to stand down to enable the Bosnian elections to go ahead.

Western mediators, in particular the US, are anxious to go ahead with elections on September 14 in an effort to stick to the timetable envisaged under the Dayton accord. But members of the Muslim-led Bosnian government have created a problem by indicating that they would boycott elections if Mr Karadzic and other indicted war criminals remain at large in the run-up to the first post-war poll seen as a crucial test for Bosnia's future. In a violation of the Dayton pact, Mr Karadzic insisted that Brcko, the north-eastern town at the mouth of the strategic Serb corridor, remain in Serb hands. Leaders of Serbia, Croatia and Bosnia agreed last November that the status of the strategic town would be decided by international arbitration at the end of the year-long plan. The deal on Brcko enabled western mediators to secure Muslim endorsement of the Dayton plan which would otherwise have failed.

Astra US chief fired after sexual harassment inquiry

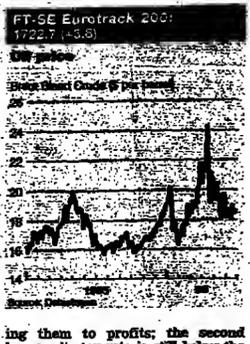
By Hugh Carnegie in Stockholm

Astra, the fast-growing Swedish pharmaceutical group, yesterday fired its chief executive of its US operations. It laid the blame for a series of sexual harassment allegations firmly at his door. Mr Hakan Mogren, Astra group chief executive, said Mr Lars Bildman, head of Astra USA for 15 years, had been fired without compensation following an internal investigation into the allegations. The investigation showed that Mr Bildman had "abused his position". Mr Mogren said, and that he had developed an "unacceptable leadership style". It had also found evidence that he had used company funds worth some US\$2m for private spending. One other senior executive at Astra USA was also fired and a third agreed to leave, along with an Astra parent company executive. But Mr Mogren denied any widespread fault within the company or its corporate culture. The main public allegations against Astra were levelled by Business Week magazine which cited a dozen cases where women claimed they were fondled or solicited for sexual favours by Mr Bildman or other executives between 1991 and 1994. Astra is one of several foreign companies to become embroiled in sexual harassment cases in the US. The US arm of Mitsubishi Motors of Japan is facing a class action suit against it by the Equal Employment Opportunity Commission alleging widespread harassment of women workers. The EEOC is also investigating the Astra case. But Astra said its problems were the result of "a single man who abused his power". It said it was co-operating fully with the EEOC and any other outside investigation. Astra is facing at least three lawsuits brought against it by former employees alleging sexual harassment. Astra was careful not to accuse Mr Bildman - who was suspended in May when the allegations were first made by former Astra USA employees - directly of sexual harassment. Lawyers for Mr Bildman have said the allegations against him are totally false. Astra said: "The investigation found that Mr Bildman exhibited inappropriate behaviour at company functions, primarily internal sales meetings held off company premises. Such conduct is inexcusable for any senior executive of our company." It added that Mr Bildman had used company money for renovations of his home and holiday travel worth around US\$2m. Mr Mogren denied that senior group management knew of the alleged harassment or financial abuse before being alerted by Business Week in April. Astra's share price rose SKr23 yesterday to SKr293.

THE LEX COLUMN

Crude politics

The second bombing in Saudi Arabia in eight months is a powerful reminder that the regime's stability cannot be taken for granted. Nor is Saudi Arabia the only worry in the region, with serious tension in Bahrain and an unpredictable new government in Israel, the oil market is growing understandably nervous that the temperature in the Middle East is rising. Both the Iranian revolution and the Gulf war sent oil prices sky-high; serious disruption to Saudi Arabian supplies could send them higher still. But such an outcome remains very unlikely. The Saudi Arabian government's grip on power looks formidable. Moreover, whoever runs the country will ultimately be as dependent on oil revenues as the West is on oil - so long, that is, as complete chaos or the most extreme kind of fundamentalist regime is avoided. Frightening as these worst-case outcomes may sound, the much bigger risk for investors is not that the country will collapse but that its oil strategy will change - for instance, if the relatively unknown Prince Abdullah succeeds the sickly King Fahd. In the oil, the country could either cut production back sharply to push the oil price up or step production up and hope additional revenues offset the inevitable price collapse. The fact that neither is obviously in the country's long-term financial interest does not necessarily mean it might not give one a try - especially given the pressing need for cash to help the population sweat. The snag for investors, of course, is that such a change of tack is impossible to predict, since it could send the oil price in either direction.



regulatory approval to start late-stage clinical trials. There is growing evidence that it is effective against a whole range of cancers, which could propel it to peak sales of £1bn or more. The fact that the rights money will in part be used to build up a sales force for Marbasat in Europe and America is a testament to the management's confidence. And with compounds against pancreatitis, asthma, arthritis, and multiple sclerosis also under development, British Biotech is on the way to becoming a fully-fledged pharmaceutical company. Even so, valuing the shares remains subjective, with analysts suggesting anything from £20 to more than £100, compared with a current price of £23.75. Having seen the price rise six-fold in less than a year, investors should take up the rights and hang on.

Nuclear privatisation

The price range for the British Energy sale is so wide the government might just as well not have bothered publishing one at all. That, of course, reflects the unusually broad range of valuations being bandied around, which in turn reflects the difficulty of predicting future electricity prices. The risks are certainly real. It is then, an offering to be approached with full protective clothing. Actually, it should give off a protective glow. Compare it with Reliance: British Energy has less political risk, its cash flow dividend cover is more generous and its balance sheet even leaner. On that basis, the decision looks obvious - especially if, as we think, the shares could start life on even higher yields. Of course, there are worries. With Reliance, there is less risk that the management will fritter away shareholders' cash on grandiose projects; British Energy has done nothing to dispel the impression that this is a real worry for the longer term. Moreover, while Reliance's revenues are secure, British Energy's are vulnerable to lower electricity prices. And prices are bound to come under pressure in the end, when real competition is finally imposed on the market. Nonetheless, in the near term, the outlook looks reasonably benign - better, certainly, than many fear. These may not be shares to hold on to for life. But their half-life at least as investors get to grips with the scope for cutting the company's costs and gearing up its balance sheet - looks distinctly promising.

Additional Lex comment on Danka, Page 22

Mediaset

Such is the controversy swirling around Mediaset, Mr Silvio Berlusconi's television empire, that many investors will give its flotation a miss. But some may still be tempted on the theory that shares sold in unpropitious circumstances will come cheap. Indeed, an initial public offering suggests that they are. Goldman Sachs, one of the few independent brokers with a forecast, predicts L450 earnings per share this year. At the mid-point of the selling range, the price/earnings multiple is 15. Comparable European TV stocks, Britain's Carlton Communications and France's TF1, trade on multiples of 18-19. However, to make a fair comparison, two adjustments should be made. The first stems from Mediaset's curious policy of amortising television rights over several years rather than charging them to profits; the second because its tax rate is still below the standard 48 per cent rate. After such adjustments, Mediaset's prospective price rises to about 17 - only a touch below its peers. Mediaset's aspirations in mobile communications give it an appeal that Carlton and TF1 lack, but its core TV business is under greater threat than theirs. If Italy's state-owned Rai is privatised, restrictions limiting the amount of advertising it can air would probably be raised, intensifying competition would then cut both Mediaset's dominant share of ad revenues and the rates it could charge. Taken into account the other risks - such as the judicial investigations into Mediaset managers and the possibility that it may have to divest one of its channels - and the shares do not seem worth the punt.

British Biotech

Biotechnology companies have to raise money well before they need it, so British Biotech is being pragmatic rather than greedy in launching a £145m (£248.8m) rights issue when it still has £98m of cash in the bank. Shareholders are hardly going to quibble for a total outlay of £258m since foundation they now own a company capitalised at over £150m. Moreover, this is British Biotech's last fund raising. If it succeeds in getting its first two drugs to market in the next three years it will become highly profitable and able to finance future growth from cash flow and debt. If it fails, it will hardly be in a position to go back to shareholders - nor would there be much point. The odds on success are shortening all the time. Marbasat, its key anti-cancer treatment, has just received US

VW halts expansion

Continued from Page 1

allow any state aid in the car sector unless it was strictly necessary to compensate for problems in disadvantaged regions. The two German commissioners, Mr Martin Bangemann and Mrs Monika Wulf-Mathies, are understood last week to have delayed a decision on the case. But they are thought this week to have been unable to persuade other commissioners to reject the advice of the Brussels competition directorate to cut the aid. Volkswagen said it "considers the investment in Saxony clearly as new investment, a judgment that was shared until recently even by EU experts". It has shelved the plans "with immediate effect". At Mosel, VW is already producing its Golf series car, and had hoped to expand the site between 1997 and 1999 to 750 cars a day. Capacity at the Chemnitz plant was also to be increased at the same time through a new engine production facility.

Malaysia reforms stock exchange to challenge Singapore

By James Kyng in Singapore

Malaysia is to allow companies from other countries to list shares on its main stock exchange in a move designed to challenge Singapore as the region's financial hub. Mr Muir Majid, chairman of Malaysia's Securities Commission, said yesterday that he hoped the initiative would help broaden and deepen the Kuala Lumpur Stock Exchange, the third highest in Asia after Tokyo and Hong Kong in terms of market capitalisation. He did not indicate when the liberalisation would take effect but said that it would be a phased reform. Foreign companies which were "promoted and controlled" by Malaysians would be the first to list on the exchange. The development follows comments earlier this week by Mr Ron Sommer, chairman of Deutsche Telekom, the biggest telecoms operator in Europe, that the company was "thinking intensively" of a listing in Asia after privatisation in Germany in November. Mr Sommer did not say whether Malaysia was being considered, but Deutsche Telekom's deal to buy 21 per cent of Telekom Resources Industries, a prominent local telecoms company, could make the German company a candidate for a listing. A Malaysian listing would encourage foreign investors to apply for all or some of the pre-

ferential terms available to local companies in the domestic market, analysts said. If Deutsche Telekom secured a listing on the Malaysia exchange it would bring immense prestige to the bourse and help attract international portfolio investors. In addition, companies with a secondary listing in Malaysia would be more likely to choose Kuala Lumpur as a regional headquarters - a role now more often filled by neighbouring Singapore. Singapore already allows foreign listings. There would be other important spin-offs for Malaysia, say analysts. Mr Neil Saket, senior regional economist at Crosby Securities in Singapore, said: "Malaysia is clearly hoping that foreign firms will be more committed to the country and transfer the type of technology that the seventh [five-year economic] plan requires." Mr Muir said that the Securities Commission has submitted a proposal to the finance ministry to establish an over-the-counter (OTC) trading market for domestic high-technology companies. Such a market would provide an alternative source of capital for companies too small to list on the stock exchange's second board. He said an OTC market should not replace or compete with current forms of financing for high-technology industries such as bank loans and venture capital funds.

Saudi bomb

Continued from Page 1

he had spoken to King Fahd, the Saudi monarch, who had expressed his deep regret at our loss and his determination to find those responsible." Mr Warren Christopher, US Secretary of State, yesterday interrupted his tour of the Middle East to revive Arab-Israeli peace talks and flew to Saudi Arabia to show support for US troops and survey the damage at the air base in Khobar, near Dhahran.

FT WEATHER GUIDE Europe today... Five-day forecast... TODAY'S TEMPERATURES... Lufthansa logo and text: No other airline flies to more cities around the world.



Indonesia would... a new high flier. Indonesia's state-owned IPTN celebrates its 20th anniversary with the debut at Indonesia Air Show '96 of the twin-engine N250, scheduled to enter commercial service next year. The N250 is the world's only fly-by-wire regional turbo-prop and, at 330 knots, one of the fastest. Its range is 800 miles and stretched versions with up to 72 seats are already under development. Key equipment includes landing gear supplied by Messier-Dowty (TI Group's joint venture with SNECMA) and Dowty propellers and hydraulics - a package worth over US\$200 million across the expected life of the programme. With our help, the N250 is a real high flier. Dowty is one of TI Group's three specialised engineering businesses, the others being Bunsby and John Crane. Each one is a technological and market leader in its field. Together, their specialist skills enable TI Group to get the critical answers right for its customers. Worldwide. TI GROUP WORLD LEADERSHIP IN SPECIALISED ENGINEERING

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IN BRIEF

Holzmann warning lifts takeover rival

The fierce takeover battle between Philipp Holzmann and Hochtief, two of Germany's largest construction groups, appeared to move Hochtief's way after Holzmann warned it would not pay a dividend for this year - just weeks after it cancelled its 1996 dividend. Page 16

Moscow equities reach fresh peak

In Moscow, shares continued their climb and reached a record as the Moscow Times index rose 17.42, or 5.4 per cent, to 337.89. The index has jumped about 90 per cent since mid-May. Traders said western investors were flooding the market with buy orders amid growing confidence that Mr Boris Yeltsin, the Russian president, will win re-election in next Wednesday's second round poll. Page 36

Telecom Eireann selects partners

A consortium linking Koninklijke PTT Nederland, the privatised Dutch telecommunications company, with Telia of Sweden has been selected as the strategic partner for a 35 per cent stake in Telecom Eireann, Ireland's state-owned telecoms company. Page 15

Costain in talks as shares suspended

Costain is in talks with a potential south-east Asian investor considering taking a large stake in the UK construction group. It called for its shares to be suspended after they fell 31p to 39p. Page 21

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Chief price changes yesterday

FRANKFURT (DEM)		Telcel	457	+	7
Alcoa	1161	+ 16.2	Phelps	178.9	- 7.7
ASE	1073	+ 31	Phelps	1230	- 29
ASX	528.5	+ 5.5	Phelps	121.5	- 1.9
BHP	810	+ 5.5	Phelps	879	- 19
BOC	880.5	+ 9	Phelps		
BP	632	+ 10	Phelps		
BRITISH NEW YORK (GB)		Phelps	482	+ 24	
BP	259	+ 14	Phelps	996	+ 18
BP	2446	+ 24	Phelps	958	+ 100
BP	2254	+ 14	Phelps	916	+ 30
BP	39	- 9	Phelps	3790	- 180
BP	2776	+ 24	Phelps	2110	- 110
BP	19	- 4	Phelps		
BP	254	+ 15	Phelps	17.8	+ 0.8
BP	188	+ 13	Phelps	3.775	+ 0.8
BP	380	+ 40	Phelps	28.15	+ 0.85
BP	39	- 31	Phelps	1.48	- 0.18
BP	458	+ 198	Phelps	2.2	+ 0.15
BP	397	- 15	Phelps	0.76	- 0.11
BP	4.1	+ 0.89	Phelps	55.0	+ 5.0
BP	2.5	+ 0.75	Phelps	430.0	+ 34.0
BP	8.0	+ 0.50	Phelps	43.75	+ 3.75
BP	18.8	- 1.55	Phelps	104.0	- 11.0
BP	27.8	- 3.1	Phelps	35.5	- 3.5
BP	5.5	- 1.85	Phelps	50.5	- 5.5
BP	288.5	+ 15.5	Phelps		

Fiat to sell off New Holland stake

By Andrew Hill in Turin
 Fiat, the Italian vehicle and industrial group, is to sell off a minority stake in New Holland, its London-based agricultural and construction equipment subsidiary, by the end of the year.
 Mr Cesare Romiti, chairman, told shareholders at the annual meeting in Turin the group would sell 30-40 per cent of New Holland, probably on the New York and Milan markets.
 The issue would "bring major economic gains and a considerable inflow of cash", although he did not specify the amount. Fiat also announced this week it was to set up a \$1bn multicurrency credit facility which would allow it to draw down loans at lower interest rates than at present over the next seven years.
 Fiat needs the financial flexibility to continue its expansion programme, which includes selling its new "Palo" "world car" in South America and later China, India and south-east Asia. "Our investments will be extremely broad in the coming years, so the money which should arrive from these sales could be used for this", Mr Romiti said.
 Fiat has appointed Mediobanca, the Milan merchant bank, and Goldman Sachs of the US, to work on the New Holland sale.
 The subsidiary was formed in 1961 from the agricultural and earthmoving equipment interests of Ford of the US. Ford retained a minority stake which was bought out by Fiat in 1983.
 New Holland, which is registered in the Netherlands and has its headquarters in London, returned to profit in 1994 and now contributes about 10 per cent of Fiat group sales.
 Mr Romiti, who took over from Mr Gianni Agnelli as chairman in February, also confirmed that he would step down as chairman in June 1996, when he will be 75.
 Mr Agnelli's nephew, Mr Giovanni Alberto Agnelli, who heads the Piaggio scooter group and is a Fiat director, is tipped to take over, although he will still be in his mid-30s in 1996. Fiat is controlled by the Agnelli family through the quoted holding companies In and IRI.
 Fiat confirmed it suffered a decline in margins in the first quarter of 1996, when pre-tax profit slipped to L464bn (\$301.5m), against L506bn a year earlier. But Mr Romiti said the situation had improved and Fiat expected the full-year margin to be only slightly lower than 1995's 4.4 per cent. Full-year turnover is expected to be at least L60,000bn, against L75,692bn in 1995. Last year, Fiat announced a net profit of L2,147bn.
 Mr Romiti told shareholders 1996 would be "another difficult year", because of continued weak demand in Europe, and Italy in particular, the strengthening lira, and the slump in the important Brazilian market.
 Apart from confirming Mr Romiti as chairman and Mr Paolo Cantarella, previously head of Fiat Auto, as chief executive, Fiat also elected four new directors: Mr Paolo Fresco, vice-president of General Electric of the US, Mr Gianfranco Guty, chief executive of Generali, the Italian insurer, Mr Gabriele Galateri di Genola, chief executive of IRI, and Mr Franco Riboni, chairman of Danone of France.
 New York tractor float, Page 18

Air France operating profits rebound

By David Owen in Paris
 Air France yesterday reported its first annual operating profit of the 1990s. But the state-controlled carrier recorded a net loss of nearly FF33bn (\$570m) after provisions of FF22bn for a voluntary severance scheme and other labour measures.
 The figures also excluded the results of Air France Europe, the carrier's domestic partner, which recorded a large operating loss.
 In an effort to address this, Air France Europe yesterday announced the closure of 19 routes, with effect from October 27. It said this would enable it to improve its operating result by about FF950m.
 Air France Europe is also approaching a crucial stage in negotiations with its pilots over attempts to align their pay and conditions with those of their Air France counterparts; at present, Air France Europe pilots receive between 10 per cent and 15 per cent more.
 Air France has said it would delay planned merger of Air France Europe and its own European operations if the domestic pilots did not agree a remuneration package by the end of this month. The merger is set for April next year.
 The net loss at Air France for the year to March 31 amounted to FF2.87bn - against FF467m in the corresponding 1994-95 period. The earlier figure was helped by FF2.51bn in capital gains.
 Turnover fell 1.8 per cent from FF40,182bn to FF39,44bn. The company said adverse currency fluctuations affected sales by about FF1bn. It said the public sector strikes that swept France in December 1995 resulted in a decline in revenues of FF300m. The average number of employees fell by nearly 2,000 to 36,484.
 The airline's operating profit totalled FF141.5m, compared with a loss of FF902m in 1994-95. Its pre-tax loss totalled FF968m, against a FF3.22bn loss. The net loss prior to restructuring provisions was FF787m, compared with a FF2.69bn loss.
 The 1994-95 financial period originally lasted 15 months because of a change in the company's year-end, but comparative figures have been taken from pro forma accounts covering April 1 1994 to March 31 1995.
 Air France Europe, the former Air Inter, reported a net loss of FF766.4m for the 15 months from January 1 1995 to March 31 1995 - against a net profit of FF20.9m in the 12 months of 1994.
 The company attributed the deterioration to "social conflicts" and the effect of the opening of its domestic network to competition from other French airlines. Operating losses for 1995-96 totalled FF549m.
 Turnover for the 15 months to March 1995 was FF13.6bn, compared with FF11.7bn for 1994. The company said the number of passengers carried in the 1995 calendar year was down 7.5 per cent compared with 1994.
 Fifteen of the 18 Air France Europe routes to be closed are between France and cities in the UK, Spain and Portugal. The three internal French routes to be closed are from Paris to Nantes, to Toulon and to Perpignan.
 Air France is waiting to find out whether the European Commission will allow it to receive the third and final tranche of a FF22bn state aid package. A decision is expected in mid-July.
 Other European airlines, including KLM of the Netherlands and Germany's Lufthansa, have complained that Air France is using state aid to fund cuts in fares. Air France has also reached agreement with Airbus Industrie for the delivery of five Airbus A340-300s, originally ordered in 1990.

British Biotech in £143m cash call

By Clive Cookson, Science Editor
 The UK biotechnology sector took two more steps towards maturity yesterday. British Biotech said it was seeking £143.4m (£19.4m) in a one-for-eight rights issue to build the infrastructure needed to become a big international pharmaceutical group. And Chiroscience said its first product, a painkiller for arthritis patients, had reached the market.
 British Biotech's rights issue will be the UK sector's biggest fund-raising exercise. It follows a year in which the company's share price has raced up from less than 80p to a peak of £35.50 a month ago, after promising trial results for its oral cancer drug, marimastat. Its shares fell 5p to £23.75 yesterday.
 Chiroscience, which raised £40m in a share placement last month, said dexketoprofen, its arthritis drug, was launched in Spain this week by Menarini, its Italian marketing partner. Its shares closed up 1p at 43p.
 "This is one of the first development programmes to reach the market from any company in the UK emerging pharmaceutical sector," said Lord Chilver, Chiroscience chairman.
 British Biotech said the £143.4m raised by issuing 7.2m new shares at £20.50 each would enable it to finish developing marimastat and the leixipant treatment for pancreatitis, and to build European and North American operations.
 British Biotech also announced a pre-tax loss of £25.2m for 1995-96, down from £26.3m in 1994-95.
 "The rights issue is an important step for British Biotech in achieving its objective of building a new international pharmaceutical company," said Dr Keith McCallagh, chief executive. The group has cash and investments worth £55m. It does not expect to seek more money from shareholders before leixipant and marimastat reach the market.
 Some analysts had expected British Biotech to wait until later this year or early 1997, when it had more data for marimastat, before a rights issue.
 Mr James Noble, finance director, denied the company was being unduly opportunistic in its timing, when the share price was inflated by excitement about marimastat.
 British Biotech stands out among UK rivals for the scale of its ambition to be a leading world pharmaceutical group.
 Mr Noble said it envisages an eventual sales force of about 500. Chiroscience, in contrast, "still intends to become a world-class drug discovery and development company, rather than a major integrated pharmaceutical company," said Dr John Padfield, chief executive.
 Lex, Page 14

Rockwell chief dismisses talk of demerger but keeps his options open

According to persistent rumours, Rockwell International, the US manufacturer, is thinking of selling its defence business. To those with long memories, this might seem bizarre. If ever a company typifies what President Dwight Eisenhower called the military-industrial complex, it is Rockwell.
 This, after all, is the company which first put Americans into space, then on to the moon. If Armageddon ever happened, America's bombs would be dropped from Rockwell aeroplanes. Its intercontinental missiles would be steered by Rockwell electronics.
 But in these post-cold war days, the US defence industry is in a fever of amalgamation. As defence budgets have shrunk, Rockwell - like many in the industry - has changed shape. A decade ago, the Pentagon and NASA, the space agency, accounted for nearly two-thirds of its business. The figure is now around a quarter.
 Mr Don Beall, Rockwell's chairman and chief executive, treats the speculation with studied ambiguity. "The company's defence business, he says, is big enough to stand alone. It also confers technological and other benefits on the company's other divisions.
 "Having said that," he adds, "we're very mindful of the consolidation going on in defence here and around the world. Chairman are talking to chairman all the time. If I ever thought there was a combination which would be a stronger business, we'd do it. It would probably not be within the structure of Rockwell as it is today."
 As those with even longer memories may recall, Rockwell has not always been in the defence business. It began life making truck axles, and automotive components still account for a quarter of the company, with sales of more than \$3bn.
 But that business, or parts of it, could also be for sale. "Automotive doesn't have to be an integral part [of Rockwell]," Mr Beall says. "If we ever felt it couldn't reach our long-term objectives, there are lots of alternatives."
 So what is integral to Rockwell? Two businesses, it appears. First is factory automation, which Rockwell entered in 1984 with the acquisition of Allen-Bradley. With the addition 18 months ago of Reliance Electric,

another option. Rockwell has just disposed of its newspaper printing press business - another world leader - for \$600m. But Mr Beall is careful to deny that Rockwell is joining the demerger fashion, or is uncomfortable with diversity.
 "Most of us [in Rockwell] grew up in a multiple business environment," he says. "We're a lot simpler now than in the days when we were making industrial sewing machines and oilfield valves. If we separated our aerospace and automotive businesses we'd be easier to understand - and that's all I'm going to say about that."
 The impression remains that getting rid of the aerospace and defence business, in its entirety at least, would go against the grain. Some parts of the business, Mr Beall concedes, might offer scope for rationalisation if combined with competitors. "But the practical reality is that if I sold our rocket engine business to Lockheed Martin [the biggest US defence company], what would they do to save money? They're not in that business."
 Nor does he accept the prevailing wisdom that the technology of defence has become so specialised as to be commercially useless. "I think the technological flow from defence into commercial markets is certainly still important. We also operate our defence business in a commercial way, with a lot of our managers going back and forth. It's a two-way process with us, more than with most companies."
 Again, though, he qualifies his position. "If we ever did lose [our defence technology], we'd find ways to compensate."
 In part, this hedging is caused by the desire to leave options open, but it may have another aspect. Mr Beall became president of Rockwell at the age of 39, and has been chairman for the past eight years. Now 57, he has not decided when to retire. "But I don't think you'll see me here when I'm 68. That would be too long."
 In other words, Rockwell in its present form is largely Mr Beall's creation, and in the foreseeable future he will be handing it on. The shape of the company at that point may simply not have been decided yet. It seems clear, though, that the decision when it comes will be mainly Mr Beall's.
 Selling businesses remains



Guarded secrets: Don Beall, Rockwell chief, is keeping his plans quiet

Acquisitions are planned. In automation, Mr Beall says, Rockwell's objective is to double revenue to \$5bn by 2000. "We couldn't do it without another major acquisition or two. If we just grew the present business, we would reach \$5.5bn or \$6bn. In Europe, I've knocked on a lot of doors. A lot of the businesses I'd like are owned by other people who want to keep them, and a lot are still family owned."
 Selling businesses remains
 Tony Jackson

Online satellite service set for Japan

By Michio Nakamoto in Tokyo and Louise Kehoe in San Francisco
 Nintendo, Microsoft and Nomura Research Institute are launching an online information service in Japan that will use a combination of satellite communications and standard telephone lines to deliver information and entertainment services to home computers.
 The service, to begin by the middle of next year, aims to win a share of Japan's growing market for online information ser-

via modems linked to standard telephone lines but transmission rates are slow.
 "It is very time-consuming to obtain graphics via the telephone line but data on the Internet will increasingly involve graphics," says Mr Hirohito Sawake, analyst at Nikko Research Center.
 He said the advantage of this system appeared to be that it could send graphics rapidly by using satellite broadcasting.
 In the US, Microsoft is working with Direct TV to develop a similar service that is scheduled to be launched early next year.

broadcasting satellite. Users of the new service will need a satellite dish and tuner and a specially designed satellite modem installed in a PC.
 "The PC is becoming a communications tool," said Mr Bill Gates, chairman of Microsoft, the US software company. "I think the venture really draws on the strengths of all three companies."
 The companies said the service would make the Internet more accessible in the home by providing high-speed access. Currently, most PC users access the Internet

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COMPANIES AND FINANCE: EUROPE

Holzmann warning gives succour to Hochtief

By Michael Lindemann in Bonn

One of Germany's fiercest takeover battles between two of the country's largest construction groups, Philipp Holzmann and Hochtief, appeared to move Hochtief's way yesterday after Holzmann warned it would not pay a dividend for this year - just weeks after it cancelled its 1996 dividend.

Holzmann recently reported surprise net losses of DM443m (€328m) after it had to write down the value of several property investments.

A London-based construction analyst said the group's continuing difficulties now meant that Deutsche Bank, which holds 25.5 per cent of the company - and could hand control

to Hochtief - would be increasingly inclined to see Hochtief take over.

"I think Deutsche Bank's preferred outcome would be for Hochtief to come in - subject to agreement from the cartel authorities," the analyst said.

The Berlin-based cartel office is investigating Hochtief's proposed takeover and in an initial ruling rejected the idea, arguing that the merged group would dominate Germany's otherwise very splintered construction market. The two sides are due to meet again in court in November.

Another analyst specialising in construction companies who attended Holzmann's annual general meeting in Frankfurt suggested that the group may

also fail to pay a dividend in 1997 after Mr Lothar Meyer, chief executive, said Holzmann faced "very difficult years" this year and next.

Hochtief already holds 24.9 per cent of Holzmann and has parked a further 10 per cent with Commerzbank, the leading German bank which is close to Hochtief, subject to a final ruling by the cartel office.

Holzmann's warnings come on the heels of other forecasts by leading German construction groups which are considerably more optimistic.

Mr Hans-Peter Keitel, Hochtief's chief executive, said earlier this week that while it was too early to make forecasts for the full-year, new orders from outside Germany more

than made up for a very depressed German construction market.

Strabag, another leading construction group, said yesterday it expected a "moderate" increase in construction output - the sector's equivalent of sales - and a significant improvement of its operating results. Strabag's 1995 pre-tax profits fell to DM26m, down from DM32m a year earlier.

Several analysts warned that part of Holzmann's continuing difficulties had to do with its lack of rigor in writing down the value of its property investments.

KPMG Deutsche Treuhander, the auditors who had valued the investments, recommended that the group write down

investments worth DM536m, but Holzmann eventually decided to write down investments worth DM458m. "There are some more time-bombs ticking away there," the analyst said.

Holzmann said, meanwhile, that results in the first five months had been considerably better than in the first three months, when construction projects had almost come to a standstill because of the bitterly cold winter in Germany.

During the first five months to May 31 construction output totalled DM4.6bn, 8 per cent lower than last year, while the group had booked new orders worth DM5.9bn, some 5 per cent more than in the equivalent period last year.

Court gives go-ahead for CFF meeting

By Andrew Jack in Paris

Shareholders in Crédit Foncier de France, the troubled specialist property lender, yesterday failed in their attempt to delay the group's annual general meeting, one to be held on Friday.

The Paris commercial court rejected the investors' claim that the provisional 1995 accounts circulated by CFF and qualified by its auditors were inadequate and justified delaying the assembly.

The decision came during a tense week for investors in a number of French groups. Eurotunnel, operator of the Channel tunnel railway link, holds its annual general meeting today amid tensions over a proposed restructuring plan with its creditor banks.

Separately, minority shareholders in Compagnie d'Investissements de Paris, an investment company, expressed their frustration at the decision of Banque Nationale de Paris, the majority investor, to reject a counter-bid launched on the company.

Mr Jérôme Meysonnier, chairman of Crédit Foncier de France, said yesterday that he could "only rejoice" at the decision of the court to reject criticisms from shareholders about the reasons behind changes in accounting policies, which partly explained CFF's 1995 loss of 1.1 billion francs (€162m).

He said there was no question that he was making excessive provisions. The write-offs had been taken to reflect a sharp deterioration in the Paris property market, as well as the need to reflect a realistic assessment of its assets which would allow strong credit ratings.

Shareholders in Crédit Foncier have criticised the size of the provisions, and restructuring proposals which could make their investment in the group almost worthless.

They have threatened to attempt to block approval of the group's accounts on Friday and to vote against a capital reduction plan, while discussing a demerger of the group to help resolve its difficulties.

Fiat targets New York for tractor float

Mr Cesare Romiti, Fiat chairman, said yesterday the group would probably sell 30 to 40 per cent of New Holland, seeking a listing in New York by the end of this year. The details will be fixed later by Mediobanca, the Milan merchant bank, and Goldman Sachs, the US investment bank, which will handle the sale.

One Milan-based analyst warned yesterday that the tractor market had already reached the top of its cycle. New Holland staged a strong return to profit in 1994, when it recorded a profit before minority interests of £178bn (€375m), against a loss of £1.48bn the previous year, but although the group increased sales in 1995, its profit slipped by 31 per cent. Fiat blamed the crisis in the Brazilian agricultural sector - which bought only 17,600 tractors in 1995, compared with 38,500 in 1994 - and difficulties in the sourcing of components for the decline.

But even if New Holland has passed its recent peak, analysts still concede that the capital gain on the sale of a minority stake will be "huge", given that the book value of New Holland NV, the Dutch-registered holding company for the group, was only £237bn at the end of 1995.

"As one of the biggest companies in the world producing agricultural and construction equipment, its capitalisation [in our balance sheet] is much

Ploughing a rich furrow

New Holland (fr bn)	Turnover		Cash flow		Capital Expenditure		Profit before minority interests		Number of employees	
	1995	1994	1995	1994	1995	1994	1995	1994	1995	1994
	8,150	7,800	581	781	215	138	382	578	16,620	18,681

* Group income before minority interests, plus depreciation.

Fiat (fr bn)	Net Revenue		Cash flow		Capital Expenditure		Number of employees	
	1995	1994	1995	1994	1995	1994	1995	1994
	75,692	75,692	6,778	6,778	5,651	5,651	237,428	237,428

Source: Fiat

lower than we expect to get for it on the market," said Mr Romiti at yesterday's Fiat shareholder meeting in Turin, although he did not put a figure on the amount the group hoped to raise from a sale.

The decision to list New Holland, rather than directly seek a buyer or partner among its tractor industry rivals, reflects both the anti-trust difficulties which would certainly have been encountered by the latter course both in Europe and in North America - as well as likely lack of interest from companies big enough to be in a position to make an offer.

Between them, just four groups dominate the tractor markets of both Europe and North America. New Holland is Europe's market leader, with about 15 per cent of the 180,000 units a year sector, followed by John Deere of the US with 12 per cent, Massey-Ferguson with 11 per cent and JI Case with 10 per cent.

In North America, John Deere leads the market with a 35 per cent share. Case has 23 per cent, New Holland has 16 per cent and Agco, based in Georgia, Atlanta which owns Massey-Ferguson, 12 per cent.

Any further concentration would mean tangling with both US federal anti-trust authorities and the European Commission, points out Mr Christopher Barrow-Williams, research director of London-based analysts Off-Highway Research.

However, it is also hard to envisage any strong industrial or commercial imperatives for one of the other Big Four to seek a large stake in New Holland.

The tractor industry has been undergoing restructuring and the other leading groups are close to completing reorganisations giving each a substantial presence in the sector's leading markets.

For example, Case, whose flotation on Wall Street in three tranches was completed by US industrial conglomerate Tenneco last year, is completing construction of a large new production facility at Doncaster in the UK, about 150 miles north of New Holland's own principal manufacturing plant at Basildon in Essex.

In addition, it has just acquired the tractors business of Steyr-Daimler-Puch, the Austrian engineering group, and now has strong representation across Europe to complement its main manufacturing operation at Racine, Wisconsin.

On top of the cash likely to be raised from the New Holland flotation, Fiat has just appointed banks to organise a \$1bn multi-currency credit line, to last for the next seven years. Fiat had net debt of £3,487bn at the end of March, an increase of nearly £500bn from the level on December 31, but

the main reason for renewing the credit line and divesting part of New Holland is to raise money for further expansion in Italy and abroad.

"The problem we have ahead of us is one of new developments," said Mr Romiti yesterday. "That means starting new initiatives, opening new markets, producing in areas - such as south-east Asia, China and India - where you can't sell cars unless you manufacture in the country itself, and increasing our efforts in the Mercosur [the south American free-trade area]."

For Fiat, the disposal of a minority stake in one of its largest subsidiaries would mark a change of tack compared with last year's plan to inject its chemicals and biomedical subsidiaries, headed by Sna BPD, into the complex planned merger between Gemina, the investment company, and Ferruzzi Finanziaria, the holding company.

That plan, later abandoned, would have raised about £700bn for Fiat. Mr Romiti said yesterday that there were no plans to break up or sell off Sna BPD and its subsidiaries Sna Fibre, Sorin Biomedica and Caffaro, all of which are quoted companies, although Fiat may reduce its stake in the sector, while remaining the largest shareholder.

Andrew Hill and John Griffiths

SEARCH

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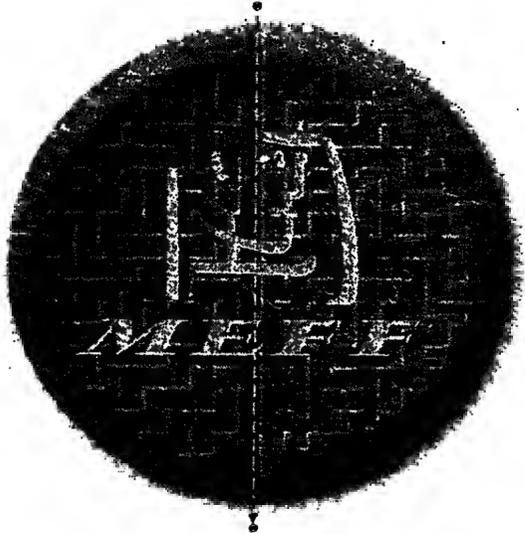
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20 YEARS OF ACHIEVEMENT

FINANCIAL POSITION

31 December 1995 (in million of USD)

Assets	1995	1994	1993
Cash and banks	191	208	121
Marketable Securities	436	480	56
Loans	514	526	-
Equity Participations	137	66	-
Fixed and others	30	30	7
Total	1,308	1,310	184

LIABILITIES AND SHAREHOLDERS FUNDS

Deposits from banks	629	658	-
Provisions and others	80	73	2
Dividends payable	20	20	-
Shareholders' funds	-	-	-
- Paid up Capital	400	400	170
- Reserves	179	199	12
Total	1,308	1,310	184

FINANCIAL RESULTS 31 DECEMBER

Net Operating Income	45	20	8
Less: Risk provisions	(5)	-	-
Net profit for the year	40	20	8

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Third Row: Mark Babunovic, Alan Badanes, Cheryl Boucher, Satu Jaasinen, Betsy Nelson, Elaine Devenish, Judy Welch, David Brown, John Dean, Mahmoud Difaawy, Michael L. Ellison
Fourth Row: Nadeem Fayyaz, Mary Beth Fender-Mieth, Jackie Gillan, Robert Hinaman, Rachael Hoey, Julie Jakobek, Jeremy Jewitt, Nadine Lagarmite, Brian C. Lazell, Ray Morison, Andrew D. Panzures, Brian Scammell
Fifth Row: Robin Saunders, Colette Selflagh, William A. Semmes, Yawar Shab, Karen Simon, Stephen W. Solomon, Guy Spavull, Rob Standing, Sergei Boboshko, Anne E. Whitaker, John Wiggell

COMPANIES AND FINANCE: EUROPE

Moulinex workers march for 'dead town day'

It was the day the full meaning of France's gloomy unemployment figures finally sank in for the 6,000 people of Mamers.

They marched en masse yesterday through the shuttered streets of their tranquil Norman town, 180km west of Paris, in silent protest at plans by Moulinex, the household appliances group, to close the factory that is the mainstay of the local economy.

According to an official, the plant accounts for 37 per cent of the town's professional tax receipts.

It was an effective and dignified way to draw attention to the downside of the efficiency drive that is in full swing across broad swathes of French commerce and industry, as managers restructure in the face of tough worldwide competition.

Yesterday's so-called "dead town day" at Mamers came just over a week after Mr Pierre Blayau, Moulinex chairman, unveiled plans to cut more than 20 per cent of the company's workforce, in a

move described on the front page of Le Monde as an "electric shock" for the 60-year-old group, which has several plants in the region.

A tired-looking Mr Blayau spoke of the danger of Moulinex being bought by a foreign rival and of the need to bring the group's business performance to "a level equal that of its main competitors". He suggested the manufacture of products earmarked for developing markets would be transferred overseas.

This was a point picked up by yesterday's marchers as they filed from the 30-year-old Moulinex factory, with its incongruous medicine-pink logo, to a mid-morning rally, complete with balloons, church bells and air-raid sirens, in Place de la République. "No to Mexico, Yes to Mamers" said their banners. "Mamers must not die."

The factory's 411 employees at the head of the procession, many in blue overalls, wore numbers on their chests, like marathon runners. A large proportion were at the age, in

their 40s and 50s, where finding new jobs would be particularly difficult, and had clocked up long years of service.

"Thirty-three years," said employee number 204 when asked how long she had worked for Moulinex. "I work on motors," she added.

In a possible sign of things to come, the procession left behind a silent and deserted factory. White-handled irons were visible through the window on stationary conveyor belts. A single blue Moulinex lorry stood near the delivery bay.

In a shrewd public relations move, the march was led by Fanny and Julien, both nine years old. They carried two simple banners. "My mum and dad don't have a factory any more," said one. "Thank you, Mr Blayau," said the other.

Mamers' small businessmen and women were also out in force. A sign in the window of Mr Pierre Colette's bric à brac and antiques shop spoke of his profound sadness and shock at what was threatened and said

he would be on the streets all day.

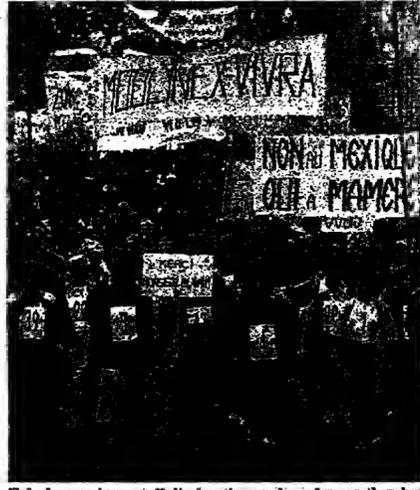
The marchers have other, more powerful allies. Mr François Fillon, minister of post and telecommunications and chairman of the general council of Sarthe, the département where Mamers is located, has called on the labour ministry to turn down the closure proposals.

Mr Franck Borotra, industry minister, has said they are "not acceptable in their present form". But the industry ministry later acknowledged it could do little more than work at the margins of the plan to shed 2,600 workers.

There was also a trace of resignation in the response from Mr Michel Corbin, mayor of Mamers, when asked if he hoped to keep the plant open.

"I am not completely convinced that all is completely lost," he said. "That means we must fight, step after step, stage by stage."

David Owen



Unlucky numbers: staff display the number of years they had worked for Moulinex as they march through Mamers.

NEWS DIGEST

Polish telecoms group raises loan

Netia Telekom, Poland's sole private telephone operator, has raised a \$180m loan from a foreign banking consortium led by the European Bank for Reconstruction and Development and ABN Amro of the Netherlands, for the construction of 350,000 lines over the next three years.

The 10-year facility, signed yesterday in Warsaw, is the EBRD's largest telecommunications loan to date. It opens the way for Netia - a joint venture between RF Telekom, a Polish telecoms operator, Telia, the Swedish state-owned operator, and the EBRD - to press on with plans to install the lines at a cost of \$350m. The remaining financing is to be provided by the company as well as supplier credits. Netia has installed 15,000 local lines.

Under Poland's present telecommunications regime, local connections are open to competition while regional and international connections are controlled by Telekomunikacja Polska SA, which operates 5.8m land lines. RF Telekom is jointly owned by local investors and foreign partners which include Dankner Investment, of Israel, and Goldman Sachs, of the US. Christopher Bobinski, Warsaw

Audi accelerates to DM206m

Audi, the German carmaker and subsidiary of Volkswagen, yesterday posted pre-tax profit of DM206m (\$134.4m) for the first quarter, up from DM95m a year earlier. The company said it expected full-year pre-tax profit to be "at least as high as last year". In 1995, Audi reported pre-tax profits of DM588m for the full year.

Car production in the first quarter grew 18.6 per cent to 120,110, while worldwide customer deliveries rose 6.3 per cent to 118,651 during the period, from 109,696 a year earlier, Audi said.

However, a breakdown of deliveries showed a different picture, Audi noted. In Germany, deliveries fell 3.6 per cent to 32,290 in the first quarter, from 34,251. The decline was due to the unusually high number of deliveries during the period last year, it said. German market share fell from 6.5 per cent to 5.7 per cent during the period.

In western Europe, excluding Germany, Audi deliveries rose 15.7 per cent to 45,498 in the first three months of 1996 from 39,313 a year earlier. Deliveries in the US rose 38.4 per cent to 5,776, from 4,173 units, Audi said. In the rest of the world, deliveries gained 9.4 per cent to 13,087 cars from 11,961.

Agencies, Neckarsulm, Germany

CSM in Swedish buy

CSM, the Dutch-based branded consumer products group, yesterday agreed to acquire Malaco, a Swedish manufacturer of sweets, from Kraft Freia Marabou, the Scandinavian group which is a division of Kraft Foods, of the US. The purchase price was not disclosed. Malaco, which had sales of SKr88m (\$130.6m) in 1995, will become part of the CSM food division as an operationally independent unit. The acquisition will be official within four months. Agencies, Amsterdam

Setback for German builder

Wayss & Freytag, the German building and construction group, said output in the first five months of the year totalled DM1bn (\$652m), or 3 per cent below a year earlier. New orders in the period climbed 7 per cent from a year earlier to DM1.16bn, with domestic orders up 8 per cent at DM1.06bn. Unfilled orders rose 4 per cent from the end of last year to DM3.8bn at the end of May, with domestic orders up 6 per cent at DM2.5bn, the group said. Wayss & Freytag had a 1995 net profit of DM24.6m. AFX News, Frankfurt

Telecom Eireann finds partners

By John Murray Brown in Dublin

A consortium linking Koninklijke PTT Nederland, the privatised Dutch telecoms company, with Telia of Sweden has been selected as the strategic partner for a 35 per cent stake in Telecom Eireann, Ireland's state-owned telecommunications company.

The KPN-Telia consortium will pay an initial €183m (\$115.7m) for a 20 per cent stake in TE.

Mr Michael Lowry, Ireland's minister for transport, energy and communications, said the total proceeds would exceed €500m under a complex agreement, under which the consortium will pay an additional €200m over the next three years as it exercises options on the remaining 15 per cent. KPN-Telia will make further payments under a profit-sharing arrangement based on the future earnings of TE.

The sale, on which the government was advised by Morgan Stanley, the US bankers, was prompted by the need for

TE to position itself ahead of the deregulation of the European telecoms market in line with Commission directives.

Ireland won a two-year delay, or derogation, in the EU timetable, together with Greece, allowing it to maintain protective barriers to competitive telephony until 2000.

The provision of mobile and other niche markets is already open to competition. Ireland has Europe's third most advanced digital network, but the decision to seek a derogation was prompted more for political reasons.

About 40 companies were invited to make bids when the deal was first envisaged five years ago. KPN-Telia made a lower bid than Tele Danmark, the Danish state telecom company, Cable and Wireless, of the UK, had earlier offered €240m for a 40 per cent stake. AT&T, the US company, and British Telecommunications had both earlier withdrawn from the bidding.

Rebutting criticism that the deal was much less than had been originally envisaged, Mr

Lowry said that €220m of the proceeds would be funnelled back into the company, to allow TE to restructure its balance sheet, where debt is running at around €800m.

The balance will help to reduce the government's liabilities in respect of its pension contributions, which are currently around €700m.

"The structure of this deal allows us to align the strategic and financial interests of the state, the company and the strategic partner," Mr Lowry said.

Mr Lowry said it was a milestone agreement. The government has indicated this is a one-off sale. Nonetheless, KPN-Telia will want the authorities to clarify the nature of competition, together with future intentions for the remaining 65 per cent stake, as well as the question of how the pension liabilities are to be funded.

The deal was strongly criticised by opposition politicians yesterday. However, Mr David Begg, head of the communications union, welcomed the choice of partners.

Solvay plans \$170m expansion for US plant

By Jerry Luesby

Solvay, the Belgian chemicals company, has unveiled a \$170m investment plan for its soda ash plant in Wyoming, driven by the strength of the glass market in Latin America and Asia.

The company said it planned to expand the plant in three phases, beginning next April. The pace of the expansion will depend on demand, but capacity will eventually rise to 3.2m tonnes, from 2.1m tonnes currently.

Solvay's 20 per cent partner in the Wyoming plant, Asahi Glass of Japan, will take one-fifth of the expanded output. Most of the remainder will be exported to glass producers in South America and Asia. The glass market is growing at 4 per cent a year in South America and 7 per cent in Asia, Solvay said.

Solvay is the world's largest producer of soda ash, and accounts for 60 per cent of European capacity.

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COMPANIES AND FINANCE: THE AMERICAS

NEWS DIGEST

Pactel, SBC to pay for probe into link

Pactel and SBC Communications, the US "Baby Bell" telecom companies planning to merge into a group with total sales of \$24bn, are to foot the bill for a statutory probe into the deal's implications for consumers. The \$150,000 donation was intended to speed up regulatory proceedings by the California Public Utilities Commission, which is currently overrun with investigations and hobbled by a lack of state funds, the companies said.

Urgency was called for because of a clause in the merger contract which allowed either prospective partner to cancel if the deal were not closed by the end of March next year. The PUC process, considered the biggest hurdle the companies must overcome, had previously been shelved indefinitely because annual budget cuts of 5 per cent over the past few years had left the bureaucracy unable to cope, officials said. A rush of work, prompted by last year's deregulation of the US telecoms industry and a rash of deals involving media, telecoms and entertainment companies, had drained resources.

The companies' contribution pre-empted a clause in the California budget for 1996-97 which is intended to force merger candidates to pay all the costs of regulatory investigations, starting in July. If enforced, this could add at least \$1m to transaction costs, observers said. While the funds have at least allowed the probe to start, the PUC's consumer rights division is famed more for its meticulous approach than for speed.

Christopher Parkes, Los Angeles

Apple shares slide to all-time low

Shares of Apple Computer fell to an all-time low yesterday, trading at \$17 in mid-session amid investor concerns about its declining share of the personal computer market. Apple went public in May 1984, when its shares traded at around \$28. The stock has fallen below \$20 only once before, in December 1985, but this was before a two-for-one stock split in June 1987.

Yesterday's dip below \$20, a 3 per cent fall from Tuesday's close of \$20.75, signalled sinking confidence in the ability of Apple's new management to restore the company quickly to profitability, analysts said.

Louise Kehoe, San Francisco

Placer Dome targets costly mine

Placer Dome has announced a "major renewal plan" aimed at improving the economics of its high-cost Sigma gold mine in Val d'Or, Quebec. The plan means cutting about 100 jobs at the mine, from 325.

Placer Dome said Sigma, which had an average cash production cost of US\$488 an ounce of gold in the first quarter, had been striving for profitability since a rock slide in June 1995 limited access to its primary ore zone. Studies have since shown that accelerated development of alternative gold veins will not compensate for the shortfall. The average cash production cost rose to \$550 an ounce in May, "necessitating action to stem losses in the short term", the company said.

A.P.-D.I., Vancouver

Molson delays release of results

Molson, the Canadian brewer and retailer, has delayed release of its fourth-quarter and fiscal 1996 (to March 31) audited results until the second half of July because of the effects of its C\$1.1bn (US\$805.3m) sale of subsidiary Diversey's special chemicals assets. Molson has already sold C\$932m of Diversey assets. The last Diversey unit on the shelf may fetch about C\$200m. Molson is expected to incur a loss for the year after special charges.

Meanwhile, Molson has named Mr Norman Seagram, 63, to replace Mr Marshall Cohen as president and chief executive.

Robert Gibbens, Montreal

Tenneco buys Amoco packaging business

By Laurie Morse in Chicago

Tenneco Packaging is to buy Amoco Foam Products Company, a unit of Amoco Chemical, for \$310m, in a deal that will expand its line of specialty containers.

Amoco Foam Products, based in Smyrna, Georgia, manufactures polystyrene cups, plates, and trays as well as hinged-lid food containers, packaging trays for meat and poultry, and industrial foams for residential and commercial construction applications. The company had 1995 sales of \$288m.

The purchase will carry Tenneco's polystyrene container applications into food processor and restaurant business lines. Last year, Tenneco paid \$1.3bn for Mobil Plastics, which manufactures consumer plastics such as Hefly rubbish bags and Baggies sandwich bags. Tenneco already makes polystyrene tableware for retail sale under the Hefly brand name.

The Amoco Foam purchase comes just a week after Tenneco announced the sale of its Tennessee Energy unit to El Paso Energy. The disposal was part of plans to redeploy capital into two main businesses: packaging and automotive components.

"This is the kind of acquisition which meets our criteria perfectly. It is in one of our core strategic businesses - specialty packaging; it will be accretive to earnings from the start; it exceeds our goal of a 15 per cent return; and it offers synergy and opportunities for value creation," said Mr Dana Mead, Tenneco chairman.

"Our strategy is focused upon redeploying cash from businesses such as energy with at best a 9-10 per cent return and a highly uncertain regulatory environment, to businesses where we can meet our earnings goals and rely on the competitive forces of the market," Mr Mead said.

Tenneco Packaging is the fourth-largest packaging company in the US, and eighth-largest in the world. Amoco Foam Products employs 1,600 people at nine manufacturing centres, all in the US.

Pathman bid, Page 21

Crunch time for US cereal makers

Consumers are tired of overpriced cornflakes, writes Richard Tomkins

If you want to make an American shopper apoplectic, just mention the cost of cornflakes. The usual response is a tirade against the prices charged by the big breakfast cereal manufacturers.

Yet munchers of Cocoa Krispies, Grape Nuts and Spoon Size Shredded Wheat are finding themselves with less to complain about following the outbreak of a price war in the US cereal market. In the last few weeks, each of the three biggest cereal companies - Kellogg, General Mills and Philip Morris's Post subsidiary - have slashed prices in an attempt to win back fading consumer enthusiasm for their products.

The price-cutting bears the hallmarks of a similar episode in the US tobacco industry that started with Marlboro Friday - the day in 1993 when Philip Morris cut the prices of its premium cigarette brands to regain market share.

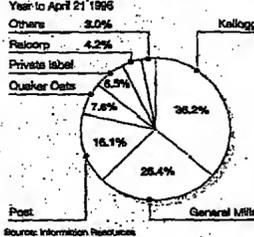
Analysts say the big cereal manufacturers, like the big tobacco companies three years ago, are guilty of sheer greed. Over a period of many years, they have pushed up prices in the belief that consumers will go on buying their products on the strength of their brands.

The result of this policy is that branded cereals have become extraordinarily expensive in US stores. In a London branch of the J. Sainsbury supermarket chain last week, a 500g box of Kellogg's Corn Flakes was selling for £1.06, or \$1.63 at current exchange rates. In New York, a 510g box of the same product was selling for \$3.29 in a branch of the D'Agostino supermarket chain - at more than double the UK price per gram.

Significantly, not everyone pays such high prices. In an

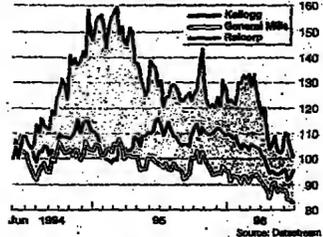
Price war begins to bite

US breakfast cereal market Year to April 21 1996



Source: Information Resources

Share prices relative to the S&P Composite



Source: DataStream

attempt to stimulate demand, cereal companies typically distribute billions of money-off coupons a year, enabling the thrifty to buy their favourite cereal at a discount.

The strategy, however, has failed, infuriated by the high prices and constant coupon-clipping, US consumers have started turning away from cereals, either skipping breakfast or switching to alternatives such as muffins or bagels. In the year to April 22, US cereal sales fell 8.7 per cent to \$7.85bn, according to Information Resources, a Chicago-based market research group.

Meanwhile, those consumers who still need their daily fix of flakes are saving money by buying private-label products instead of branded goods. Defying the shrinking market, private-label sales rose 9.1 per cent to \$514m in the year to April 21, says Information Resources - hardly surprising when a box of private-label cornflakes can cost half the price of the Kellogg product.

Two years ago, General Mills became the first big cereal company to respond to weak-

ening demand when it announced it was reducing couponing and cutting the cost of its biggest-selling products by an average of 11 per cent.

Now, faced with declining sales, all the big cereal makers are cutting prices. In April, Post announced it was reducing list prices by 20 per cent across its range of Post and Nabisco products; earlier this month, Kellogg followed by cutting prices by an average of 18 per cent across two-thirds of its US cereal sales; and last week General Mills, not to be outdone, announced it was cutting prices by another 11 per cent on brands accounting for 42 per cent of sales.

The manufacturers' apparent objective is to fight off the challenge from private-label products and restore growth to the cereal sector as a whole. "We believe the long-term benefits of these actions far outweigh their costs," said Mr Stephen Sanger, chairman and chief executive of General Mills.

Yet the price war is hurting the participants. Kellogg said its earnings would dive from 77

cents to 45 cents a share in the second quarter to June, and that its earnings for the full year would be no higher than last year's. General Mills said the cuts would cut earnings by \$30m-\$35m, or about 30 cents a share, in its fiscal year ending May 1997.

Another victim is Raisinop, a manufacturer of private-label cereals, which stands to lose some of the market share it has won. Last week it announced plans to cut jobs and production at one of its plants, and said it would take an undisclosed charge in the quarter to June.

No-one knows where the price war will end, but the size of the price premium still being charged by the big manufacturers suggests there could be more cuts to come. One Wall Street analyst, Mr Mark Alther at Salomon Brothers, thinks one or more companies may even disappear before the war is over.

"There are basically too many cereal producers out there, and it may be that the end game in all of this is to get rid of somebody."

General Mills profit ahead 28% for year

By Richard Tomkins in New York

A big rise in breakfast cereal sales helped General Mills, the US food company, report a 28 per cent increase in underlying net profits to \$475m for its year to May 26. Earnings per share rose 28 per cent to \$3, the company said yesterday.

The figures were in line with predictions by General Mills last week, when it announced that it was introducing a second round of price cuts in its breakfast cereals, following a first round two years ago.

General Mills also reiterated last week's warning that the latest price cuts would hit profits in the current year, reducing net income by \$30m-\$35m, or about 20 cents a share. Between 50 and 75 per cent of the impact would come in the first quarter, it said.

Last year's fourth quarter was the strongest of the year, General Mills said, with net losses of \$13.3m the previous year turning into net profits of \$77.5m.

Excluding restructuring charges in the previous year, earnings per share rose from 10 cents to 49 cents.

The profits growth was driven by a 13 per cent increase in sales to \$1.35bn, with unit volume up more than 11 per cent.

For the full year, General Mills said its Big G cereals business led the company's performance. Sales and unit volume both rose by nearly 10 per cent, and its share of the market by volume rose 1.3 percentage points following the price cuts of the year before.

The Financial Times plans to publish a Survey on

IMF/World Bank: World Economy & Finance

on Friday, September 27.

- To coincide with the IMF/World Bank meetings in Washington in 1996
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The FT is judged as the world's most important financial publication worldwide. Source: INQ Bank Survey 95.

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FT Surveys

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COMPANIES AND FINANCE: ASIA-PACIFIC/INTERNATIONAL

St George fails to win support for merger

By Nikki Taft in Sydney

St George Bank, the Australian regional bank, is "considering its options" after shareholders in Brisbane-based Metway Bank failed to provide enough support for its A\$820m (US\$648m) merger proposal to go through.

rival scheme involving a merger between Metway, the state-owned Suncorp insurance business and the Queensland Industry Development Corporation.

holders in all three classes of shares to be in favour. A majority of ordinary shareholders backed the scheme, but short of the required level. One class of preference shareholders were in favour, and one against.

It said it would offer A\$4.80 a share for Metway, compared with A\$4.85 previously. This topped the St George offer, which had been increased to A\$4.77, although the Queensland government's cash would not be available so quickly.

ated that potential avenues which it might explore included a legal challenge or a "normal" takeover bid. However, Metway's chairman played down the likelihood of the former succeeding, and analysts believed that St George had been stretched to make its A\$4.75 a share offer in the first place.

Premier gets go-ahead for R800m rights issue

By Mark Ashurst in Johannesburg

Premier Group, the troubled South African food, pharmaceuticals and retail conglomerate, has secured the agreement of its principal shareholders for a long-awaited rights offer which will be used to reduce its debt of R566.7m (R222m).

Mr Dong Bend, chairman, denied analysts' reports that Liberty Life, the insurer, Johnnies Industrial Corporation, the industrial holdings group, and Anglo American Corporation had stalled Premier's plan for a R800m rights issue.

Details of the issue would be announced within weeks, he said. "We want the money in the bank by the beginning of the next financial year."

At April 30, Premier's overall debt-to-equity ratio was 32.4 per cent. The cash would be used to recapitalize its mainstay subsidiary, Premier Foods, which has suffered during the group's diversification into other retail sectors.

Daewoo Motor on ambitious new course

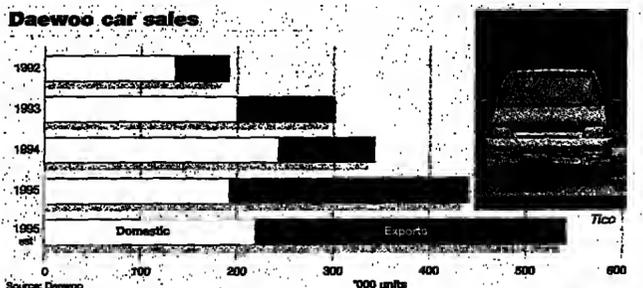
The Korean group aims to become one of the world's top 10 car manufacturers

In a bleak waterside spot about 200km south of Seoul, Daewoo Motor, the automotive arm of South Korea's fourth-largest industrial group, is building the mother of all car plants.

Already the high-tech buildings constructed for the first phase to build 900,000 cars and 30,000 heavy trucks a year contrast sharply with the desolate landscape.

Daewoo has hit the headlines less for Kunsan, which has only just started pilot production of passenger cars, than for its acquisitions abroad - mainly in eastern Europe and the former Soviet Union.

In the past two years, it has bought a former state car-maker in Romania, the biggest state truck group in the Czech Republic, and founded a car



Further down the line, Daewoo will also launch a compact car below the T100, a multi-purpose "people carrier", and even an executive saloon in the Mercedes-Benz mould.

Mr Bez has assembled a strong team of engineers to achieve that aim. Many are former colleagues from Germany.

Mr Gieger Ostle, Daewoo's design guru, worked at Porsche before becoming Mazda's European design chief. Other ex-colleagues can be found at Daewoo's new engine development centre in Munich and its UK-based research and development centre in Worthing.

Mr Bez says no other company has managed to do so quickly so many new cars so quickly from scratch. The speed has come partly by using outside consultants. Work has been sub-contracted to Lotus, the UK engineering specialist, and Austria's SFT.

plant in Uzbekistan. Acquisitions reached its zenith last February, when Mr Kim signed a deal to take over FSO, a Polish public-sector carmaker infamous for its unreliable and outdated Polonez models.

Mr Kim says the motley collection will be made competitive by building Daewoo. That should give the company a head-start in areas, such as eastern Europe, where car ownership is expected to surge.

Daewoo is already becoming a familiar name in its target markets. Not long before, snatching FSO from the grasp of General Motors, which had been negotiating with Warsaw for more than four years, it purchased FSL, a commercial vehicles group, which is assembling Daewoo's Nexia hatchback alongside its truck range.

But the Nexia, in reality an outdated Opel from GM's German subsidiary, typifies the contradictions between Daewoo's ambitions and its current standing. All the company's cars are based on products from other manufacturers.

Such generally low-cost, low-tech models could be ideal for regions such as eastern Europe or India, where most customers want uncomplicated, affordable cars, rather than all the frills. Confusingly, however, Mr Kim also wants to make Daewoo's name in western Europe and the US. The company hopes to sell 100,000 cars in western Europe this year and 150,000 in the US once established there.

BMW and Porsche executive who joined Daewoo almost three years ago, explains the apparent contradiction. "You must understand the difference between the present cars and those of the future," he says.

Mr Bez makes little effort to defend the current range. He focuses on the three new models under development - the first of which has just gone into production at Kunsan.

Codenamed J100, it is about the size of a Rover 400 and will come as a hatchback, notchback or station wagon. Below it in the range will be the T100, sized similarly to a Rover 200, while above will stand the V100 executive sedan.

All three look stylish and modern. Korean drivers will get their hands on the J100 towards the end of this year. Exports will start in early 1997, and Mr Bez hopes the entire range of current models will have been replaced worldwide within two years.

NEWS DIGEST

Dickson Concepts ahead 19% for year

Dickson Concepts, the Hong Kong-based luxury wholesaler and retailer, yesterday reported a 19 per cent increase in net profits to HK\$395.5m (US\$51.1m) for the year ended March 31, against HK\$332.19m the previous year.

BHP divests North Sea holding

The steady divestment of "non-core" energy assets by BHP Petroleum, part of the Australian resources group, continued yesterday. The unit announced it was selling its 12.43 per cent stake in the Mungo and Monan oil and gas fields in the North Sea to Total Oil Marine, part of the French Total group.

Kim Eng slides to S\$35.6m

Kim Eng Holdings, the Singapore-based broker, saw net profit fall 19 per cent to S\$35.6m (US\$25.2m) for the year ended March 31. The company said its performance reflected the market conditions in Singapore, Malaysia and Hong Kong.

First Capital to raise S\$200m

Shareholders in First Capital Corporation, the Singapore property group, have agreed to the creation of 200m cumulative preference shares at an issue price of S\$1.00 each. The issue is designed to raise S\$200m (US\$142m) to refinance the company's redeemable preference shares and be used for working capital.

Mayne Nickless sells UK unit

Mayne Nickless, the Australian transportation, security and healthcare group, is selling its Security Express Armaguard business in the UK to Sweden's Securitas group. The sale price is A\$8m (US\$6.2m), with up to a further A\$4m due if the business returns to the black before the end of 1997.

Ashok Leyland posts 60% rise

Ashok Leyland, the Indian truck manufacturer, yesterday posted a net profit of Rs1.13bn (R32.4m) for the latest year ended March 31, up 60 per cent from Rs705.3m last time. Revenues jumped to Rs20.1bn, up from Rs15.1bn. Pre-tax profit for the latest year rose 89 per cent to Rs1.34bn.

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COMPANIES AND FINANCE: UK

Costain in talks as shares suspended

By Andrew Taylor, Construction Correspondent

Costain is having talks with a potential south-east Asian investor considering purchasing a large stake in the UK construction group.

The British company which has asked the stock exchange permission to extend the deadline for publishing its annual results pending "significant corporate developments" yesterday called for its shares to be suspended after they fell 31p to 38p.

The price fall reflected market concerns that the delay in publishing results might mean further bad news following two separate profit warnings by Costain earlier this year.

The significant developments referred to by the company, however, are understood to relate to the possibility of a large stake being sold to a south east Asian company and to negotiations over the sale of Costain's remaining US coal interests which are also thought to be at an advanced stage.

The deals, if they come off, would together wipe out Costain's remaining debt, leaving the company with a modest cash surplus.

It would leave Costain, which ran into serious difficulties in the early and mid 1980s, in its strongest financial position for years. Collaboration with a south east Asian investor could provide further work opportunities in the region's expanding construction market. The sale of large stakes, thought to be less than 50 per cent, would involve Cos-

tain in issuing a large amount of new equity which would require shareholder approval.

It was not clear yesterday how the British group's major shareholders, including two Middle eastern construction companies, each with a stake of just over 19 per cent, would react to the proposals.

Costain which regards south east Asia as one of its most important markets has kept its major shareholders informed of the negotiations.

Analysts have estimated that the sale of Costain's US coal

business could raise about \$50m (\$75.5m). An announcement of the two deals would mitigate the impact of the company's annual results which are expected to show pre-tax losses in the region of £40m.

The construction group would not comment last night on speculation about share issues or the sale of its coal business only adding that it expected to be able to make an announcement concerning these results and other significant corporate developments shortly.



Lord Douro, deputy chairman (left) with Joseph Kanoni: described year as 'satisfactory'

Danka shares fall after first quarter estimates

By Geoff Dyer

Shares in Danka Business Systems fell 28 per cent yesterday after the acquisitive office equipment supplier released estimates for first quarter profits which were below some analysts' forecasts.

The shares, which have risen tenfold in the last four years, fell 185p to 490p after the Edinburgh-based group said that profits in the first quarter of this financial year would be £21m-£22m (£2.1m-£2.2m).

Mr Mark Vaughan-Lee said the group had increased its North American sales staff by 10 per cent in the last two months, which meant that the group would face a period of higher costs while the new staff were being trained.

"We had not anticipated that

our businesses would hire the new staff at such a fast rate," he said.

First half profits would also be held back, he said, by the cost of reorganising the US business into a regional structure, which would lead to the temporary duplication of some jobs.

The announcement produced a mixed response from analysts. In the US, where most of the shares are traded, analysts reduced their forecasts for annual profits by around 20 per cent.

Pannure Gordon, the group's house broker, provisionally reduced its forecast for full year profits from £79m to £72.5m and some analysts said it was inevitable that Danka's large number of acquisitions would lead to management

problems.

However, Mr Richard Harwood at brokers Collins Stewart left his forecast unchanged at 55p, on the grounds that he had expected the group's expansion plans to lead to some one-off costs.

"The shares had been trading at a multiple of 30 which made them look a bit overvalued," he said.

As a result of yesterday's correction the shares are on a forward p/e ratio of about 20.

The rise in Danka's shares, which were at 49p in September 1992, has been fuelled by acquisition-led growth, which included 50 separate purchases last year. The group has also been expanding its sales and marketing staff to help introduce the new digital colour copiers to its clients.

Mayflower pulls out of US counter-bid

By John Griffiths

Mayflower, the UK engineering group, said yesterday it had decided not to pursue a counter-bid against Tenneco, the US industrial conglomerate, for American motor components group Pullman.

Mayflower's announcement came a few hours after Tenneco's Monroe Auto Equipment subsidiary had agreed to increase its bid for Pullman to \$325m (£214.5m) - some \$22m more than the original offer made by Mayflower two weeks ago.

The final deal was struck after Pullman agreed to delete provisions of the original merger agreement allowing it to terminate the transaction if it received superior proposals. It was expected that Mayflower's chief executive, Mr

John Simpson, would have insisted on a similar clause if the British company had decided to increase its own bid.

Mayflower was disappointed, but said it would continue to examine other potential acquisitions as part of its strategy to develop into a global automotive engineering concern.

Under its original agreement with Pullman, Mayflower will be reimbursed the \$3.5m costs it incurred in preparing its offer for the US components group. Pullman said its shareholders would receive about \$16 for each share held, up from \$13.50, after giving effect to the retirement of Pullman's outstanding debt, fee payment and other obligations.

The exact price will be determined on the closing date based on the amount of bank debt outstanding at the time.

Vendome profits hit by exceptional world events

By David Blackwell

Higher taxes, lower interest income and exchange rate pressures dented last year's outcome at Vendome Luxury Group, the holding company that owns brands such as Cartier, Dunhill and Montblanc.

The group, 70 per cent owned by Richemont, also blamed exceptional world events, partly in its key trading period in the run-up to Christmas.

These events included terrorism in Europe and Japan, social unrest in France, the reduction in the number of Pacific rim tourists to Europe

following the French nuclear tests, and the Japanese earthquake, which knocked out two of its shops.

Pre-tax profits for the year to March 31 fell from SwFr482.8m to SwFr471.6m. Sales edged ahead to SwFr2.68bn from SwFr2.65bn.

However, in sterling terms pre-tax profits were almost 9 per cent higher at £267.7m, (£269.5m) and sales 13 per cent up at £1.47bn.

Mr Joseph Kanoni, chairman, described the year as "satisfactory" considering the strength of the Swiss franc. The currency now appeared to have stabilised, and if the trend were to continue this

year's results would allow earnings growth.

The net cash pile was almost unchanged at SwFr87.2m, but net interest income fell from SwFr29.2m to SwFr16.7m as Swiss interest rates declined from 4 to 1.5 per cent.

The tax rate, low in 1993-94 and 1994-95 following changes to Swiss tax law, moved up sharply to near the expected normal rate of 27 per cent.

Earnings fell 10 per cent to SwFr 0.569p per unit. In sterling terms a final dividend of 6.53p is proposed, giving a total for the year of 10.24p, a rise of 9 per cent.

Laporte makes Australasian disposals

By Simon Kuper

Laporte, the UK's fourth largest chemicals company, took the first big step in its disposal programme yesterday by selling most of its Australasian businesses for \$357m (£29.5m).

The bulk of the operations were bought by Perizz Corporation, a New Zealand quoted

company. Perizz said yesterday it would also buy Alzo Nobel's crop protection chemicals business for NZ\$20m.

The businesses being sold made operating profits of \$45.4m on sales of \$138m last year, Mr Jim Leng, chief executive, said Laporte planned to dispose of further non-core businesses with total sales at least that high. He has said his

programme would add \$10m to profits by reducing costs, and put Laporte on a path towards double-digit profit growth.

"In December we decided there was at least 10 per cent of the group that didn't fit. To show how fragmented our operations were in Australia: we had 11 operating units there," he said. Laporte last year tried but failed to float

the businesses on the Sydney stock market. It said the Australasian chemicals market was slow.

The disposals will result in a goodwill write-off of about \$38m, to count against 1996 pre-tax profits. However, analysts left their profit forecasts unchanged at £120m. The group has not restructuring provisions of £98.7m.

Company	Share	Price	Dividend	Yield	Dividend	Yield
Anglo St James	Y to Dec 31	0.785 (2.81)	0.065 (0.0544)	0.39 (0.04)	0.06	0.06
Arco Int Res	6 mths to Feb 29	0.740 (0.707)	0.145 (0.064)	0.005 (0.11)	-	-
Aronson S	Y to Apr 30	2.95 (1.18)	1.88 (1.3)	5.27 (6.34)	-	-
Barclays Bank	Y to Apr 30	3.46 (2.18)	22.74 (22.23)	49.57 (54.1)	-	-
British	Y to Mar 31	18.9 (15.6)	0.06 (0.222)	0.25 (0.5)	-	-
Harvey Nichols	Y to Mar 30	80.2 (77.9)	9.16 (5.97)	10.5 (8.2)	-	-
ICI	Y to Mar 31	19.1 (10.2)	3.5 (2)	10.77 (7.46)	2.48	Aug 1
ICI (UK)	Y to Mar 31	25.7 (19.8)	25.3 (14.3)	20.62 (11.2)	5.45	Aug 9
Leeds	6 mths to Mar 31	129.7 (138.2)	776.4 (888)	211 (82.1)	0.6	0.6
Lloyds	Y to Mar 31	79.3 (74.2)	144 (15.3)	15.27 (5.5)	5.5	Oct 2
Merrill Lynch	Y to Mar 31	28.1 (25.7)	1.19 (0.905)	1.88 (1.36)	0.1	Oct 1
Murphy Home Prods	6 mths to Mar 31	11.2 (0.125)	0.19 (0.15)	1.2 (0.44)	1.2	0.9
Scott Paper	Y to Mar 31	1.1 (1)	0.417 (0.33)	2.61 (1.62)	1	0.9
Topco (UK)	6 mths to Mar 31	0.140 (0.050)	0.499 (0.890)	2.1 (3.7)	-	-
TI	Y to Mar 31	44 (38.6)	2.21 (1.78)	8.8 (7.9)	2.2	Aug 23
Vanguard	Y to Mar 31	1.467 (1.300)	22.7 (22.7)	27.7 (26.7)	6.47	10.9
Widnes	Y to Mar 31	52.8 (48)	5.12 (5.0)	3.71 (3.6)	0.25	Oct 2
Witnort	Y to Mar 31	- (-)	3.12 (2.81)	19.99 (17.48)	4.5	Oct 1

SEOUL TRUST

International Depository Receipts
Evidencing Beneficial Certificates
representing 1,000 units (and 100 units)

Notice is hereby given to the Holders that DAHAN INVESTMENT TRUST Co., Ltd. (the "Manager") has declared a distribution of Won 412,000 per IDR of 1,000 Units (Won 41,200 per IDR of 100 Units) payable on or after July 18, 1996 in the Republic of Korea as well as the possibility, until August 31, 1996, of receiving in new IDRs of 100 Units all or part of the distribution to which holders are entitled.

1. DIVIDEND PAYMENT

Payments of coupon on all of the International Depository Receipts will be made on or after July 18, 1996, in US Dollars at one of the following offices of Morgan Guaranty Trust in New York:

- Branch, Avenue des Arts 35
- New York, Wall Street 60
- Frankfurt, Dornstrasse 2-4

The amount of dividend shall be the net proceeds of the sale of the Won amount to an exchange bank in the Republic of Korea at the rate quoted by Korea Exchange Bank on the day of remittance to the Manager, and will be distributed to the Holders in proportion to their respective entitlements after deduction of all taxes and charges of the Depository.

Holders residing in a country having a double taxation treaty with the Republic of Korea may obtain payment of their coupons at a lower rate of the Korean non-resident withholding tax, on condition that they furnish to either the Depository or through one of the depository sub-paying agents a certificate showing their residence together with a copy of the Certificate of Incorporation or a copy of the passport for individuals. These documents are required by the Korean National Tax Administration Office as evidence of residence and without them the full rate of 27.50 per cent Korean non-resident withholding tax will be retained.

For residents of the United Kingdom, the trust intends to apply for distribution status for the accounting period ended May 31, 1996. UK benefit owners will in most circumstances be liable to tax on the distribution as "heavier reinvested" or not.

If any holder shall fail to request the distribution by the end of October 1996, the unrequested amount of distribution will be sent to the Depository in cash after deduction of 27.50 per cent tax no later than the end of November 1996.

For 5 years, the Depository will keep the amount for delayed distribution requests. The unclaimed money shall return to the trust on June 1, 2001.

2. PROCEDURE FOR REINVESTMENT OF THE DISTRIBUTION

All reinvestment requests as a whole multiple of 100 Units are to be sent no later than August 22, 1996, together with the above-mentioned required documents, to one of the following addresses:

- If the IDRs are held in Euroclear: Euroclear Operations Center, Equities Department, Boulevard de la Woluwe 62, 1200 Brussels (phone 32.2.204.14.60, telex 61025).
- If the IDRs are held outside Euroclear: Morgan Guaranty Trust Company of New York, EIR Department, Avenue des Arts 35, 1040 Brussels (phone 32.2.506.30.43, telex 317521).

The issue price for reinvestment will be the net asset value per Unit on August 27, 1996. In cases where reinvested distributions are not a multiple of 100 Units, the Unit holder can request a partial reinvestment and a partial cash distribution. The reinvestment shall be made on August 30, 1996, and the issue and delivery of IDRs to the persons entitled to reinvestment on September 30, 1996.

JP Morgan Depository: Morgan Guaranty Trust Company of New York Avenue des Arts 35, 1040 Brussels

The Republic of Italy

US\$500,000,000
Floating Rate Notes due 2000

In accordance with the provisions of the Memorandum in Annex hereto given that for the Interest Period from 27th June, 1996 to 27th December, 1996 the Notes will carry an interest rate of 5.75% per annum. The interest payable on the relevant interest payment date, 27th December, 1996 will be US\$22.29 per US\$100,000 Note and US\$7,307.29 per US\$250,000 Note.

Istituto Bancario San Paolo di Torino S.p.A., London
as Agent Bank

27th June, 1996

BANQUE NATIONALE DE PARIS

Programme for the issuance of Debt Instruments

US\$ 70,000,000
Floating Rate Note due 2000
Series 94 Tranche 1

Notice is hereby given that the rate of interest for the period from June 27th, 1996 to September 27th, 1996 has been fixed at 6.00% per annum. The coupon amount due for this period is USD 1,543.31 per denomination of USD 100,000 and is payable on the interest payment date September 27th, 1996.

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COMPANIES AND FINANCE: UK

Tomkins uncertainty ended

By Ross Tienan

Shares in Tomkins rose 18p to 249p in relief yesterday after the industrial conglomerate received regulatory approvals for its long-awaited \$1.37bn (£981m) acquisition of The Gates Corporation, the family-owned US manufacturer of power transmission belts.

some of which are in non-OECD economies in Asia and Latin America. Andrew Hollins, of broker Kleinwort Benson, said: "We see the deal as an attractive one for Tomkins, which will enhance earnings by two per cent this year and three per cent next year."

15 per cent of the enlarged equity. Mr Charles Gates, the president and chief executive of the US group, will become a non-executive director of Tomkins. The conversion price of the two classes of preference shares issued to the family will be set at the higher of \$20.468 or a 25 per cent premium to the average closing price of Tomkins American Depository Receipts in the 20 trading days from June 26 to July 24.

deal had taken a long time because the Gates family planned to be long-term investors in Tomkins. "Their management has been around our factories," he said. "They have done due diligence on ourselves and a couple of others."

Clyde Petroleum offers 'carrot' to speed up takeover

By Jane Martinson

Clyde Petroleum, the UK-based independent oil company, attempted to speed up its takeover of Crusader, an Australian energy group, and fend off further bids by offering more money to shareholders if they accept the deal tomorrow.

In what is considered an unusual move in a recommended bid in the UK, the company's Australian subsidiary announced that it would increase its offer from A\$1.62 to A\$1.67 per share if it held a controlling 50.1 per cent stake by the close of business tomorrow.

If the carrot is not accepted Clyde will drop the new offer. It currently holds 15.3 per cent of Crusader's issued shares.

The increased terms value Crusader at about A\$178m (£92.2m), up from its previous bid of A\$172.8m. However, because of the stronger pound in the intervening period the effect on Clyde's cashflow will not be as great.

The new deal represents a 38 per cent premium to Crusader's A\$1.21 pre-offer share price. Triton Energy, the US oil producer and Crusader's biggest shareholder with 49.9 per cent, said at the time of Clyde's offer in May that it intended to accept the deal in the absence of a higher bid. The group was understood to have been in talks with two other bidders before the Clyde announcement.

Crusader's board had described the bid as "fair and reasonable". The company had reported a post-tax loss of A\$3.2m after abnormal items in 1995 and net assets of A\$141.5m in 1995.

The offer, which was due to close on July 5, has been extended by a week.

Mr Malcolm Gourlay, Clyde's executive chairman, said the deal would increase Clyde's reserves by almost 5,000 barrels of oil equivalent a day and would also lengthen its reserve life by about eight months to just over eight years.

Harvey Nichols leaps 53%

By Simon Kuper

Harvey Nichols, the Sloane Ranger's favourite London department store, saw annual pre-tax profits rise 53 per cent to £2.2m (£14.1m), two months after its flotation.

Mr Dickson Poon, the Hong Kong-based chairman, said that sales since the March 30 year-end had risen more than 20 per cent over the same period last year, boosted by the 4,800 square foot expansion in floor space.

The group plans to open its first of several stand-alone restaurants at the Oxo Tower Wharf on London's South Bank in September, and a second store in Leeds in October. Mr Clive Morton, finance director, said: "We think the UK can only sustain four of our stores in total."

After Leeds, Harvey Nichols would consider opening in Glasgow, Newcastle or Manchester. Turnover last year was 16 per cent ahead at £90.2m. Mr Poon said this was because the group had improved its sales mix and modernised and increased its sales area. Mr Morton said turnover per square foot had



Dickson Poon: current year sales ahead 20 per cent

risen from £535 to £622, up from £400 in 1993.

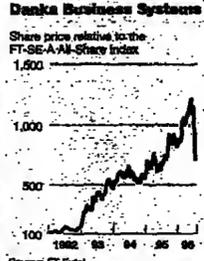
Food retail and hospitality area sales rose 19 per cent to about £13.4m thanks to Sunday trading, higher cover charges, and growing recognition. There will be no dividend, but the company plans to make its first ever pay-out at this year's interim stage. Earnings per share were 10.6p (5.3p).

The shares rose 5p to 336p yesterday, up from the April flotation price of 270p. That was seen as aggressive because it rated the stock at 26 times historic earnings.

LEX COMMENT

Danka

Yesterday's profits warning from Danka Business Systems, the photocopy distributor, has, at least temporarily, halted the dizzying climb of its share price. This looks like a much-needed correction: expectations among US investors, who hold three-quarters of the stock, had been unrealistically high. But even after a 28 per cent slide yesterday, it is still trading at 20 times this year's estimated earnings, way above the market average of 14 times.



This is justifiable only if the sudden slowdown in the company's explosive growth proves a hiccup rather than a step-change in its development. Danka claims the current setback in profits growth is the result of increased costs due to the rapid expansion of its sales force, which has yet to feed through into higher sales. In other words, the only mistake has been not phasing in the hirings more smoothly. But given the speed of its growth, and its reliance on multiple acquisitions, the worry is that the difficulty it now appears to be having in melding the result into a cogent whole could be at least a medium-term problem.

Still, the company's prospects certainly justify a premium rating. With a market share of just a few per cent in both Europe and the US, there is clearly room for further expansion. Margins, particularly in leasing, are juicy, and the competitive environment, both for acquisitions and for business, appears benign. While profits growth of around 30 per cent historically is expected to slow to around 20 per cent this year, even that is more than twice what most UK companies can manage.

M&S to open ninth store in Hong Kong

By Louise Lucas in Hong Kong

Marks and Spencer is to open its ninth and highest store in Hong Kong in spring next year, taking it a step closer to its goal of 15 local stores by 2000.

Asia is becoming increasingly important to the group; it now has 21 stores in six countries in the region. It has also opened a representative office in China. In Hong Kong last year the group's turnover rose 27 per cent to £90.2m, while operating profit increased 22 per cent to £15.6m.

The newest store will be based in the new Plaza Hollywood shopping centre at Diamond Hill on the densely populated Kowloon peninsula. Mr Jim MacDonald, M&S regional

director, calculates that more than 1m people, or one-sixth of the colony's population, live and work in the Diamond Hill area.

The Diamond Hill site, sold for more than HK\$30m in February 1993, is owned by a consortium led by Wharf, the infrastructure/property company. This marks M&S's third tie-up with Wharf.

Prices for goods in Hong Kong are an average 20 per cent higher than similar goods in the UK stores.

The Diamond Hill site is the retailer's second foray into residential areas in Hong Kong. It began by opening stores in prime shopping locations, but has since opened a store in a residential area of Shatin.

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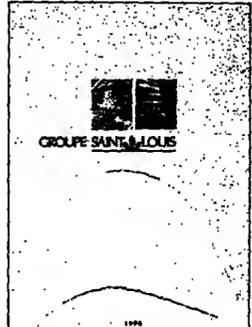
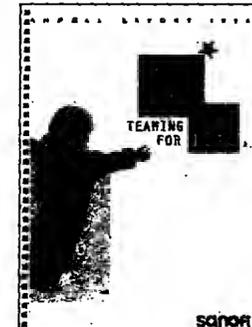
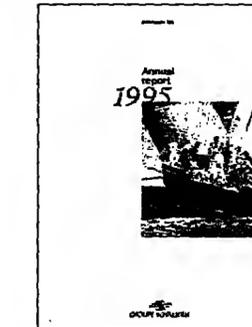
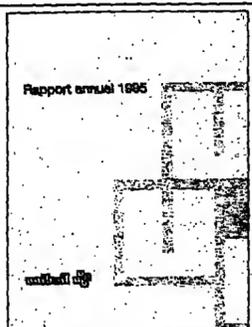
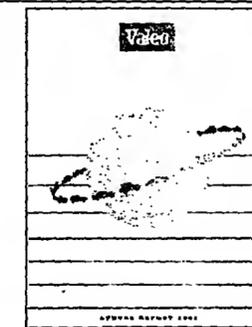
Table with 4 columns: Bid, Offer, Bid, Offer. Lists various financial data points.

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 <p>PRIMAGAZ GROUP</p> <p>The development strategy followed by the Primagaz Group over several years has made them today the European specialist in liquid petroleum gas (LPG) in the 13 countries where it has business activities. The PRIMAGAZ Group controls 21% of the distribution of LPG in Europe and 15 million tonnes and business in Europe and around the Mediterranean basin. The Group stands at the head of LPG market in some countries, helping such external growth under control as experienced in previous years.</p> <table border="1"> <tr> <td>Key figures (in million FRF)</td> <td>1995</td> <td>1994</td> </tr> <tr> <td>Turnover</td> <td>7,376</td> <td>5,607</td> </tr> <tr> <td>Shareholder's equity</td> <td>3,800</td> <td>2,702</td> </tr> <tr> <td>Net profit, group share</td> <td>334</td> <td>284</td> </tr> </table> <p>Chairman and Chief Executive Officer: Jean-Charles JOLLEST</p>	Key figures (in million FRF)	1995	1994	Turnover	7,376	5,607	Shareholder's equity	3,800	2,702	Net profit, group share	334	284	 <p>PROMODÈS</p> <p>Measured by the sales generated through its trading networks, PROMODÈS (FRF 150.7 billion in 1995, 8.9% increase over 1994 - USD 32.3 billion), the Promodès Group is now France's second largest food retailer and ranks among Europe's five leaders in its business sector. Its diversified growth strategy has targeted diversification into various segments of the retail food market: Hypermarkets - Concessionaires - Supermarkets - Specialized stores - Independent assortment discount stores - Drive - Convenience Stores - Retailers - Cash & Carry and traditional wholesalers: Patisseries, Pâtisseries, Pâtisseries. The rapid growth of the Group's domestic business has been accompanied by expansion into foreign markets. In particular, Spain, Germany, Greece, Italy, Portugal, Belgium and Turkey.</p> <p>Promodès WEB SITE: http://www.promodes.fr</p>	 <p>PSA Peugeot Citroën in 1995</p> <p>The PSA Peugeot Citroën Group has held onto its position as the third-largest manufacturer in Europe with a market share of 3.2%. This year saw new developments as the Peugeot and Citroën brands. The two makes successively launched the Citroën Xsara Estate, the Peugeot 406, the medium-sized commercial vehicles the Peugeot Expert and Citroën Jumpy and the electric versions of the Peugeot 106 and Citroën AX.</p> <p>Group turnover reached 164.2 billion French Francs, with worldwide production of 1.9 million vehicles. Net profit amounted to 1.7 billion French Francs, with an operating margin of 3.8 million French Francs. The group is once again France's major exporter, with exports to the value of 74.5 billion French Francs.</p>	 <p>ROUSSEL UCLAF</p> <p>Roussel Uclaf business operations produced wholly satisfactory results in 1995. This was achieved despite measures taken in various countries to contain healthcare spending, and despite the weakness of several currencies, notably the dollar, against the French franc. The increase in comparable net income shows an improvement in profitability. As a result of cost-cutting efforts to cut costs and improve product performance over the past several years.</p> <p>In 1995, Roussel Uclaf earned a decisive profit in its history, being one of the few French listed companies. This new entry is one of the world's top pharmaceutical firms and is set to become the global number one. Consolidated sales: FRF 16.5 billion. Comparable net income: FRF 1.2 billion.</p>			
Key figures (in million FRF)	1995	1994																
Turnover	7,376	5,607																
Shareholder's equity	3,800	2,702																
Net profit, group share	334	284																
 <p>SAINT LOUIS</p> <p>An international industrial group - We aim to boost productivity in all our businesses in order to create a sound basis for expansion. We have the determination and the means to pursue an ambitious growth policy.</p> <p>Two businesses: agri-foodstuffs and paper - Through <i>Généralis Saatchi</i>, Saint Louis generates a turnover of FRF 6.2 billion; it generates FRF 1 billion in turnover with Royal Canin and it owns 34.5% of ready meals maker Patisserie, with a turnover of FRF 8.4 billion. - Through <i>Alejo Wiggle Appleton</i>, one of the world's leading paper groups and Europe's number one distributor of graphic papers, Saint Louis controls a turnover of FRF 28 billion.</p>	 <p>SANOFI</p> <p>In 1995, Sanofi successfully integrated Sanofi-Synthelabo's pharmaceutical business. The very exciting growth generated by major international pharmaceutical products, in addition to rigorous cost management which is increasingly challenging operating environments, enabled the Company to register a double-digit increase in operating profit, up by 21 per cent, and a 15 per cent rise in net income to FRF 1,575 billion (up from FRF 1,225 billion in 1994, before non-recurring items), while preserving the development of major companies. Sales by the Roussel Uclaf business rose by more than 6 per cent to FRF 18.2 billion, or constant exchange rates and comparable Group operations. In the area of Research and Development, clinical trials were continued in accordance with established objectives. Several drugs are expected at the end of 1996 and the beginning of 1997. Sales by the Pharmacia and Beecham Products segment rose to FRF 3.9 billion, representing a slight increase in constant exchange rates and comparable Group operations.</p>	 <p>SCHLUMBERGER</p> <p>An international company providing products and services in two areas:</p> <ul style="list-style-type: none"> Oilfield Services, offer to oil companies services to enhance their efficiency in all phases of exploration and production of oil and gas reservoirs; Measurement & Systems, world leader in manufacturing of water, gas and electricity meters, also provide systems and services for automatic payments and automatic test equipment systems for electronic components. <p>1995 key figures (in million)</p> <table border="1"> <tr> <td>Operating revenue</td> <td>7623</td> </tr> <tr> <td>Net income</td> <td>649</td> </tr> </table>	Operating revenue	7623	Net income	649	 <p>SCHNEIDER SA</p> <p>In 1995, Schneider recorded consolidated net sales of FRF 94.4 billion and net income (group share) of FRF 817 million (20.3% rise from 1994) with a 2.7% increase in operating margin in 130 countries.</p> <p>The Group has 100% control of its subsidiaries:</p> <ul style="list-style-type: none"> Schneider Electric, a global specialist manufacturer focused on electrical distribution, industrial control and automation products and services, with three main brands: Merlin Gerin - Square D - Telematic. Spic Technologies, a global specialist focused on electrical contracting and construction. <p>Chairman and Chief Executive Officer: Didier Plesner-Vallée</p>											
Operating revenue	7623																	
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 <p>SCOR</p> <p>1995. It's return to equity. France's no. 1 reinsurance company increased its net income by 85% to FRF 522 million. As the world's no. 3 reinsurance group, SCOR is present on all major markets worldwide, via subsidiaries in the United States, Canada, the United Kingdom, Italy, Germany, Singapore, Hong Kong and, shortly, Brazil. SCOR is continuing to reinforce its provisions.</p> <table border="1"> <tr> <td>1995 Key Figures</td> <td>(in FRF million)</td> <td>1994</td> </tr> <tr> <td>Group net income</td> <td>11,648</td> <td>+1.7%</td> </tr> <tr> <td>Net technical reserves</td> <td>21,711</td> <td>+8.1%</td> </tr> <tr> <td>Group net income (excluding minority interests)</td> <td>522</td> <td>+85%</td> </tr> <tr> <td>Shareholders' equity (including minority interests)</td> <td>5,148</td> <td>+3.2%</td> </tr> </table>	1995 Key Figures	(in FRF million)	1994	Group net income	11,648	+1.7%	Net technical reserves	21,711	+8.1%	Group net income (excluding minority interests)	522	+85%	Shareholders' equity (including minority interests)	5,148	+3.2%	 <p>SEFIMEG</p> <p>Since its creation in 1960 Sefimeg has been one of the main property companies quoted on the Paris Bourse. Its business activity consists of the acquisition and rental of premises mainly for residential use. The property of Sefimeg and its subsidiaries is today composed of 8,266 residential properties, 68,487 m² of office space, 56,315 m² of retail spaces and 82,046 m² of commercial property and 11,817 parking spaces. The average level of occupancy in 1995 was 98% for residential property and 91% for offices and commercial property. The consolidated rental revenue rose to 601 million francs. The dividend proposed at the Ordinary General Meeting on the 20 June is 14.20 francs per share, ie a global coupon of 21.30 francs including tax credit.</p>	 <p>SIDEL</p> <p>In line with FY 1994, SIDEL registers for 1995 a record growth with a consolidated turnover increase of 64.5% to FRF 3,709.5 million, and accompanied by worldwide leadership for blow molding machines for PET bottles. The high profitability of the Group is maintained, net income rising by 33.3%, amounting to FRF 574.1 million (15.1% of turnover). At a constant exchange rate, it would have been 10.5%. Net dividend is FRF 16.50 (1.34 \$), considering the 1 for 10 bonus issue executed on September 1, 1995.</p> <p>Although 1996 will be a transition period, general trend of PET market, and the steady innovation policy of the Group - another packaging, first glass, beer, sports, ultra-clear, in particular - confirm the solid growth potential of SIDEL.</p>	 <p>UAP GROUP</p> <p>"Despite substantial external changes - which have up to the present put our operations on a soundly stable 1995 - we as a manufacturer year for us as an insurer and, as an open, laborable, reinsurance, we made progress towards improving the profitability of our business." Jacques Friboulet, Chairman</p> <p>In 1995 the UAP Group put the finishing touches on its European network, and completed the integration of its structure into profit centres. Since January 1st 1995, UAP continued strengthening its international network, through business combinations, mergers and take-overs. At the same time, a number of re-operations agreements were signed to broaden the Group's sphere of activity. Lastly, UAP systematically made the most of its various complementary skills in many different activity sectors with the aim of improving client service.</p>
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 <p>UNIBAIL</p> <p>UNIBAIL, one of the major property companies included in the SIF index of the 120 leading shares listed on the Paris Stock Exchange, has a property portfolio, which is well balanced between shopping centres and Park office buildings, has been valued by independent experts at FRF 11.3 billion. Following a succession of acquisitions, 1995 was dedicated to consolidation, with two main events, the success in the acquisition of all the property assets of their market value and successful lettings. Further improvement in net profits in FRF 20.5 million allowed, this year again, a higher dividend of FRF 28 per share to be paid against FRF 27 last year. UNIBAIL pursues its strategy seeking to achieve high yields and capital gains through a dynamic management of its property portfolio.</p>	 <p>USINOR SACLOR</p> <p>Usinor Sacilor is the leading steel producer in Europe and ranks second worldwide in terms of sales. The Group's business is organised into three main divisions: Carbon Steel Flat Products, Stainless Steel and Alloys, and Specialty Products. In 1995, Usinor Sacilor presented its policy of ongoing value in the field of high quality work, working in close relationship with its many demanding industrial customers. The policy is implemented by a highly skilled and talented workforce. The Group has the resources to sustain the world-class standard of its production facilities, while taking full cost and strengthening the financial structure. It is currently in receipt of creating a number of profit centres in Asia.</p> <table border="1"> <tr> <td>Consolidated Financial Highlights, 1995</td> <td>FRF billion</td> </tr> <tr> <td>Net Sales</td> <td>76.4</td> </tr> <tr> <td>EBITDA</td> <td>12.3</td> </tr> <tr> <td>Income from operations</td> <td>6.1</td> </tr> <tr> <td>Group net profit</td> <td>4.4</td> </tr> <tr> <td>Cash flow</td> <td>8.1</td> </tr> </table>	Consolidated Financial Highlights, 1995	FRF billion	Net Sales	76.4	EBITDA	12.3	Income from operations	6.1	Group net profit	4.4	Cash flow	8.1	 <p>VALEO</p> <p>Valeo is an independent automotive components and systems supplier and a partner to major car and truck manufacturers world-wide. Valeo is present in all the key automotive functions and has 94 production plants and R&D centers in 20 countries in Europe, North and South America and in Asia.</p> <p>Key figures:</p> <ul style="list-style-type: none"> Total workforce: 29,600 people Net income: 4% of sales Net indebtedness: 2% of stockholders' equity Dividend per share: up to 25% <p>Chairman & CEO: Noël Cozard</p>	 <p>INTRUM JUSTITIA</p> <p>Intrum Justitia is the largest debt collection company in Europe, offering a range of Inkasso and credit management services. The group is listed on the London Stock Exchange and has subsidiaries in 15 European countries, complemented by a network of 120 agents worldwide. In 1995, pre-tax profits were £15.6 million on turnover of £86.7 million. At the year end, Intrum Justitia had over 50 000 clients and more than 1,000 employees.</p>			
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COMMODITIES AND AGRICULTURE

Central banks expected to boost gold trading

By Kenneth Gooding, Mining Correspondent

Central banks can be expected to be more active in both the primary and secondary markets for gold and to respond more quickly to market demands in future, according to Mr James Cross of the Crosswords consultancy.

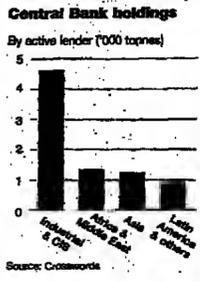
Mr Cross, between 1987 and 1995, was general manager of South Africa's Reserve Bank and he recently completed an informal survey of a number of hullion banks which revealed the relationship between the gold market and central banks has been changing significantly.

For example, the secondary, or deposit, market - which helps to provide liquidity for gold forward sales and hedging operations - has more than doubled in size from 900 to 2,100 tonnes. Mr Cross calculates that the total potential tonnage of gold held by central banks willing to take part in this business is 7,900 tonnes and the average they had on deposit at the end of last year was 27 per cent.

Mr Cross's research shows that the average time the banks are willing to put their gold on deposit is lengthening from three to six months but very few central banks will deposit beyond one year, Mr Cross insists, however, "this would change if [interest or lease] rates were more attractive".

When lease rates shot up in December last year some new central bank participants were attracted into the market. "Banks are now prepared for and ready to respond more rapidly to changes in the lease rate," he suggests.

Mr Cross says that, although central banks usually have the capability of helping their domestic banks with liquidity in times of stress, this may well not be the case where gold is concerned, either because they are not active in the deposit market or they do not wish to deposit a higher pro-



Source: Crosswords

portion of their reserves in the market. The extreme tightness in the deposit market at the end of last year "put a number of hullion banks under liquidity pressure and ultimately led to at least one bank ceasing bullion operations".

Mr Cross suggests that in the primary gold market the central banks are likely to sell some gold "when domestic needs arise". He says there is an increasing need for an official selling mechanism to be established which would help large central bank gold transactions to be executed.

His research also showed that central banks are increasingly using derivatives in some form or another to enhance the quality of their reserve asset management and "we can expect to see a knock-on effect in the gold derivative markets".

NZ dairy exports flourish in Latin America

The region now accounts for a quarter of the sector's overseas sales, writes Terry Hall

South America is rapidly becoming one of New Zealand's most important markets for dairy products. Five years ago New Zealand sent minimal quantities of dairy products to the major Latin American countries, but in the past year over NZ\$1bn (US\$660m) worth of products were shipped there, and the Dairy Board believes the trade will continue to grow strongly.

Latin America now takes 25 per cent of all New Zealand's dairy exports - a similar percentage to Asia, a market New Zealand has been struggling to develop for many years.

Unlike Asians, who traditionally buy few dairy products and see a knock-on effect to buy them, South Americans have always counted dairy goods as a staple part of their diet.

New Zealand dairymen have known of the potential of Latin America for decades, but trade barriers and economic problems discouraged the industry to seek markets elsewhere. Now, however, the success of the Chilean economic recovery has spread throughout South America, and with it trade liberalisation.

Brazil is the scene of one of the New Zealand dairy industry's most dramatic success stories. For years Brazil banned dairy imports, declaring itself to be self-sufficient. The New Zealand Dairy Board was quick to exploit the opening potential. "We can see Brazil becoming one of our most important markets in future," he says. "The population growth there is enormous; it is really one of last great frontiers, and it was off limits to us for years."

Staff numbers in Brazil have grown to 12, with an emphasis on technological expertise. Later on the board will concentrate on developing branded products including cheese.

As part of its expansion in Latin America, the board has recently bought manufacturing and packaging companies in Venezuela, Chile and Mexico. Over the past five years New Zealand has become the major supplier of dairy products to Peru.

The board this week warned farmers to expect a 15 per cent drop in returns to around \$3.20 a kilogram in the coming season, beginning July 1, compared with the record \$3.60 for the season to June 30. Mr Mar-

tin says the board does not expect any substantial lift in prices this calendar year. However, he adds, there is no significant stock building under way, or surpluses in sight, which is a promising sign.

There has been a sizeable drop in the international price for butter, in part because of lower sales to Russia. Prices of milk powder have stabilised, but casin powder and cheese prices are soft.

Mr Martin says that although most prices have fallen from the high levels of six months ago they remain at satisfactory levels. He attributes the health of the industry largely to the successful implementation of the General Agreement on Tariffs and Trade settlement over the past year.

Board spokesman Neville Maclean is predicting potential. "We can see Brazil becoming one of our most important markets in future," he says. "The population growth there is enormous; it is really one of last great frontiers, and it was off limits to us for years."

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Growing band of cashmere producers trades on scarcity value

Alastair Guild on problems an opportunities in an industry producing one of the world's most sought after fibres

Cashmere's eastern origins, its exclusivity and rarity have given it a cachet to add to its softness and durability. Now the European cashmere industry is concerned that, before long, its supplies of raw cashmere from the East might dry up altogether, absorbed by the rapidly developing fashion industries in cashmere producing countries.

The rising incidence of contamination of cashmere and the misleading labelling of garments as "cashmere" are indicative of the material's increasing scarcity and potentially damaging for its name.

Price swings of 20 per cent have become quite common, but the overall price has more than doubled in the past three years, reaching \$150 a kilogram of ready-to-spin cashmere, ten times the price of the finest lambs wool.

European manufacturers see closer links with producing countries as one way of securing greater continuity of supply. China has the largest population of cashmere goats, 60m concentrated in Inner Mongolia, but also spread across northern provinces and Tibet. China produces 3,000 tonnes of Cashmere

each year, half of it suitable for spinning.

There are 8.5m cashmere goats across the border, in south and west Mongolia, up an over the last four years. Mongolia now producing some 2,000 tonnes of hair, yielding more than 1,000 tonnes of spinnable cashmere. Afghanistan and Iran together produce some 2,000 tonnes but, on average, only 20 per cent of the hair of these fleeces is useable.

China has concentrated on breeding for fineness, length and pure whiteness on goats that thrive in the very hot summers and extremely cold but dry winters of the Mongolian and Himalayan regions. The hosiery trade pays a premium for fines pure-white cashmere, which it can turn into garments of an almost infinite variety of pastel shades.

Mongolia's cashmere, though slightly coarser, is also used in hosiery. Cashmere from the Afghan and Iranian area, which is coarser and rougher still, is used mostly by the weaving trade to make coats, scarves and accessories.

China has been moving rapidly on from being simply a producer of raw cashmere. The first step is "dehairing", a complex process of separating

the goat's coarse "guard-hair" from the soft undercoat of cashmere. Some large enterprises have added drying, spinning, weaving and knitting and garment finishing in the past three years. Between 60,000 and 70,000 Chinese are now employed in downstream businesses associated with cashmere.

The Chinese have created a middle market for cashmere garments and blends of cashmere and other fibres at lower price levels, selling particularly into the private label - as distinct from branded - business, overseas but increasingly for the domestic market, which now accounts for 25 per cent of sales. This is absorbing more and more of China's cashmere. China's garment industry could conceivably be using up the country's entire production within the next three years, say some analysts.

"We went into China to conserve our source of fibre supply," says Peter Forrest, managing director of Dawson International, which 18 months ago entered into a joint venture with Luoyuan, the second largest Chinese processor. "It was clear the Chinese were going to develop downstream and we wanted to be part of

that, to influence the process rather than being increasingly isolated."

Mongolia has recently started to attract significant interest from foreign investors also. Cashmere is its second most important export after minerals. The Mongolian government banned the export of unprocessed fleeces in 1994, in an attempt to bring foreign investment into downstream activity, stipulating that exported material should at least be dehaired. The ban is likely to be lifted this year, but the aim of the Mongolians remains to add value.

Its Gobi factory is claimed to dehair 25 per cent of the world's raw cashmere, also making garments and blankets. Italian company Lora, which has already sold processing machinery to the Mongolians, is planning to add to this spinning and weaving capacity. Several US and British companies are also establishing or in negotiations over possible joint ventures.

Given the high world price, European farmers increasingly see cashmere as a serious prospect for diversification. Italian, Spanish and Czech as well as UK farmers now have

animals resulting from a 10 year breeding programme on the Scotland/England border. Other European Union and eastern European countries are expressing interest in these animals, the product of crosses of UK feral goats and goats from Iceland, Tasmania, New Zealand and Siberia.

The current UK cashmere goat herd of 5,000 animals produces under a tonne of spinnable dehaired cashmere, but of less than 16 microns diameter, similar in fineness to Chinese cashmere but with a greater length. The UK would need a herd of 2m breeding females to be completely self-sufficient in cashmere," says Dr Angus Russel, of the Macaulay Land Use Research Institute who is co-ordinating a 3-year EU research programme into cashmere goats. "But that number of goats would replace only about 8 per cent of the national sheep flock, by no means a ridiculous objective for the long term." Goats are complementary to sheep and, properly managed, will improve the quality of their grazing. Norway and Greece are both interested in keeping goats for milk and cashmere. Cashmere goats from the UK breeding pro-

gramme are already providing milk yields comparable with the general goat population in southern Europe. There would also need to be a significant market for goat's meat in the UK to make a large cashmere herd viable. Some ethnic minorities already buy some and Sainsbury's is now stocking it in three of its south-east stores on a trial basis. Most critical of all is likely to be way the government decides to allocate subsidies, says Dr Russel.

Annual premiums and bill livestock compensatory allowances are available in many European countries for goats as well as sheep, but in the UK are confined to sheep. With subsidies removed, the gross margin for bill ewes would be clearly less than for cashmere goats, according to research by Edinburgh University's Institute of Ecology and Resource Management. "Higher numbers and volume of fibre and meat throughput is likely to result in a drop in unit cost per goat and higher output prices for fine fibre," says the research report. "The development of European rural fine fibre enterprises would go along way to satisfying the objectives of the EU's initiative for rural development."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Anonymous Metal Trading)

■ ALUMINIUM 99.7 PURITY (\$ per tonne)

Grade	Price																									
Close	1474.5																									
Previous	1475.5-4.5																									
High/Low	1515-1.2 / 1511-2																									
AM Official	1469-9.5																									
Kerb close	1519-5.06																									
Open int.	1512-3																									
Total daily turnover	238,256																									
■ ALUMINIUM ALLOY (\$ per tonne)	38,195																									
Close	1259-65																									
Previous	1260-70																									
High/Low	1295-300 / 1255-6																									
AM Official	1300/1280																									
Kerb close	1295-6																									
Open int.	1295-90																									
Total daily turnover	5,177																									
■ LEAD (\$ per tonne)	1,418																									
Close	775.5-6.5																									
Previous	769-90																									
High/Low	799-755																									
AM Official	780.5-1.0																									
Kerb close	789-80																									
Open int.	789-80																									
Total daily turnover	33,907																									
■ NICKEL (\$ per tonne)	6,449																									
Close	7465-75																									
Previous	7450-50																									
High/Low	7650-80 / 7400-50																									
AM Official	7435-40																									
Kerb close	7551-3																									
Open int.	7610-20																									
Total daily turnover	13,877																									
■ TIN (\$ per tonne)	18,777																									
Close	6190-90																									
Previous	6205-45																									
High/Low	6250-250 / 6205-10																									
AM Official	6205-10																									
Kerb close	6250-45																									
Open int.	6250-45																									
Total daily turnover	15,579																									
■ ZINC, special high grade (\$ per tonne)	2,886																									
Close	1004-1																									
Previous	1002.5-1.5																									
High/Low	1002 / 1029																									
AM Official	1002-2.5																									
Kerb close	1029-4																									
Open int.	1029-4																									
Total daily turnover	69,866																									
■ COPPER, grade A (\$ per tonne)	8,054																									
Close	1805-40																									
Previous	1795-800																									
High/Low	1825-40 / 1815-1770																									
AM Official	1820-35																									
Kerb close	1799-800																									
Open int.	1799-800																									
Total daily turnover	198,889																									
■ LIME, AM Official 6/8 rate: 1,9410 <p>■ LIME, AM Official 8/8 rate: 1,9400</p> <p>Spec: 1,9415 3 mths: 1,9408 6 mths: 1,9412 9 mths: 1,9424</p> <p>■ HIGH GRADE COPPER (COMEX)</p> <table border="1"> <thead> <tr> <th>Settle</th> <th>Open</th> </tr> </thead> <tbody> <tr> <td>Jul 102.00</td> <td>102.00</td> </tr> <tr> <td>Aug 98.05</td> <td>98.50</td> </tr> <tr> <td>Sep 87.85</td> <td>88.30</td> </tr> <tr> <td>Oct 77.85</td> <td>78.30</td> </tr> <tr> <td>Nov 67.85</td> <td>68.30</td> </tr> <tr> <td>Dec 57.85</td> <td>58.30</td> </tr> <tr> <td>Jan 47.85</td> <td>48.30</td> </tr> <tr> <td>Feb 37.85</td> <td>38.30</td> </tr> <tr> <td>Mar 27.85</td> <td>28.30</td> </tr> <tr> <td>Apr 17.85</td> <td>18.30</td> </tr> <tr> <td>May 7.85</td> <td>8.30</td> </tr> <tr> <td>Jun 0.85</td> <td>1.30</td> </tr> </tbody> </table>	Settle	Open	Jul 102.00	102.00	Aug 98.05	98.50	Sep 87.85	88.30	Oct 77.85	78.30	Nov 67.85	68.30	Dec 57.85	58.30	Jan 47.85	48.30	Feb 37.85	38.30	Mar 27.85	28.30	Apr 17.85	18.30	May 7.85	8.30	Jun 0.85	1.30
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Precious Metals continued

■ GOLD COMEX (100 Troy oz: \$/ Troy oz)

Settle	Open
Jul 362.8	363.1
Aug 363.3	363.2
Sep 363.7	363.6
Oct 364.1	364.0
Nov 364.5	364.4
Dec 364.9	364.8
Jan 365.3	365.2
Feb 365.7	365.6
Mar 366.1	366.0
Apr 366.5	366.4
May 366.9	366.8
Jun 367.3	367.2

■ PLATINUM NYMEX (50 Troy oz: \$/ Troy oz)

Settle	Open
Jul 931.9	932.0
Aug 932.3	932.4
Sep 932.7	932.8
Oct 933.1	933.2
Nov 933.5	933.6
Dec 933.9	934.0
Jan 934.3	934.4
Feb 934.7	934.8
Mar 935.1	935.2
Apr 935.5	935.6
May 935.9	936.0
Jun 936.3	936.4

■ PALLADIUM NYMEX (100 Troy oz: \$/ Troy oz)

Settle	Open
Jul 181.9	182.0
Aug 182.3	182.4
Sep 182.7	182.8
Oct 183.1	183.2
Nov 183.5	183.6
Dec 183.9	184.0
Jan 184.3	184.4
Feb 184.7	184.8
Mar 185.1	185.2
Apr 185.5	185.6
May 185.9	186.0
Jun 186.3	186.4

■ SILVER COMEX (5000 Troy oz: \$/ Troy oz)

Settle	Open
Jul 505.5	505.6
Aug 505.9	506.0
Sep 506.3	506.4
Oct 506.7	506.8
Nov 507.1	507.2
Dec 507.5	507.6
Jan 507.9	508.0
Feb 508.3	508.4
Mar 508.7	508.8
Apr 509.1	509.2
May 509.5	509.6
Jun 509.9	510.0

■ CRUDE OIL NYMEX (1,000 barrels: \$/barrel)

Settle	Open
Jul 20.37	20.38
Aug 20.38	20.39
Sep 20.39	20.40
Oct 20.40	20.41
Nov 20.41	20.42
Dec 20.42	20.43
Jan 20.43	20.44
Feb 20.44	20.45
Mar 20.45	20.46
Apr 20.46	20.47
May 20.47	20.48
Jun 20.48	20.49

■ CRUDE OIL CME (100,000 barrels: \$/barrel)

Settle	Open
Jul 18.49	18.50
Aug 18.50	18.51
Sep 18.51	18.52
Oct 18.52	18.53
Nov 18.53	18.54
Dec 18.54	18.55
Jan 18.55	18.56
Feb 18.56	18.57
Mar 18.57	18.58
Apr 18.58	18.59
May 18.59	18.60
Jun 18.60	18.61

■ HEATING OIL NYMEX (42,000 US gals: \$/barrel)

Settle	Open
Jul 17.38	17.39
Aug 17.39	17.40
Sep 17.40	17.41
Oct 17.41	17.42
Nov 17.42	17.43
Dec 17.43	17.44
Jan 17.44	17.45
Feb 17.45	17.46
Mar 17.46	17.47
Apr 17.47	17.48
May 17.48	17.49
Jun 17.49	17.50

■ SOYBEAN OIL NYMEX (42,000 US gals: \$/barrel)

Settle	Open
Jul 24.08	24.09
Aug 24.09	24.10
Sep 24.10	24.11
Oct 24.11	24.12
Nov 24.12	24.13
Dec 24.13	24.14
Jan 24.14	24.15
Feb 24.15	24.16
Mar 24.16	24.17
Apr 24.17	24.18
May 24.18	24.19
Jun 24.19	24.20

■ SOYBEAN MEAL NYMEX (42,000 US gals: \$/barrel)

Settle	Open
Jul 24.08	24.09
Aug 24.09	24.10
Sep 24.10	24.11
Oct 24.11	24.12
Nov 24.12	24.13
Dec 24.13	24.14
Jan 24.14	24.15
Feb 24.15	24.16
Mar 24.16	24.17
Apr 24.17	24.18
May 24.18	24.19
Jun 24.19	24.20

■ POTATOES NYMEX (100,000 US gals: \$/barrel)

Settle	Open
Jul 11.00	11.01
Aug 11.01	11.02
Sep 11.02	11.03
Oct 11.03	11.04
Nov 11.04	11.05
Dec 11.05	11.06
Jan 11.06	11.07
Feb 11.07	11.08
Mar 11.08	11.09
Apr 11.09	11.10
May 11.10	11.11
Jun 11.11	11.12

■ UNLEADED GASOLINE NYMEX (42,000 US gals: \$/barrel)

Settle	Open
Jul 17.50	17.51
Aug 17.51	17.52
Sep 17.52	17.53
Oct 17.53	17.54
Nov 17.54	17.55
Dec 17.55	17.56
Jan 17.56	17.57
Feb 17.57	17.58
Mar 17.58	17.59
Apr 17.59	17.60
May 17.60	17.61
Jun 17.61	17.62

■ NATURAL GAS NYMEX (10,000 MMBtus: \$/MMBtu)

Settle	Open
Jul 0.85	0.86
Aug 0.86	0.87
Sep 0.87	0.88
Oct 0.88	0.89
Nov 0.89	0.90
Dec 0.90	0.91
Jan 0.91	0.92
Feb 0.92	0.93
Mar 0.93	0.94
Apr 0.94	0.95
May 0.95	0.96
Jun 0.96	0.97

GRAINS AND OIL SEEDS

■ WHEAT LCE (\$/bushel)

Settle	Open
Jul 112.75	112.80
Aug 112.80	112.85
Sep 112.85	112.90
Oct 112.90	112.95
Nov 112.95	113.00
Dec 113.00	113.05
Jan 113.05	113.10
Feb 113.10	113.15
Mar 113.15	113.20
Apr 113.20	113.25
May 113.25	113.30
Jun 113.30	113.35

■ WHEAT CBT (\$/bushel: cmt: contango)

Settle	Open
Jul 482.50	482.60
Aug 482.60	482.70
Sep	

Financial Times Annual Report Service



BELGACOM

Belgacom is the principal telecommunications operator in Belgium. With a turnover of 1.021 billion BEF in 1995, the group posted a record profit figure of 107.7 billion BEF as a result of 100% of the 1995 BELGACOM and Sabef's operations. 1,000 of whom were employed in its new subsidiary subsidiaries (Belgacom Mobile and Belgacom Country Services).

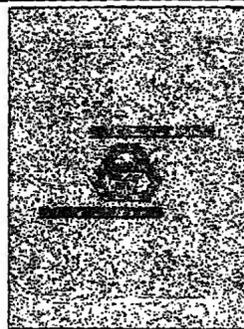
The group's main 1995 activities were:

- the closure of the consortium made up of Amstel, Tele Danmark and Singapore Telecom, one of the most efficient telecommunications operators, as a strategic move;
- the implementation of the 1995/96 plan, a comprehensive program aimed at strengthening the group's cost management capability, focusing on the various types of customers and their specific needs;
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Almazy Rossii - Sakha Company Ltd.

In 1995, Almazy Rossii, the first of its kind, was established as a joint venture between the Russian Federation and the Republic of Sakha (Yakutia). The company's main activity is the production, processing and distribution of diamonds. The company has a total of 10,000 employees and a turnover of 1,500 billion rubles in 1995. The company is a member of the Almazy Rossii Group, which is a leading diamond producer in the world.



CAIXA GERAL DE DEPÓSITOS

Caixa Geral de Depósitos, S.A., established in 1876, is Portugal's largest bank and leads the most important domestic financial group - CGD GROUP - with major subsidiaries in commercial and investment banking, insurance, leasing, factoring, fund management, real estate and venture capital. As a universal bank, CGD offers a complete financial services worldwide, backed by its branches, affiliated banks and correspondents.

1995 Consolidated Key Figures of Caixa Geral de Depósitos are:

- Net Assets: PTE 6,000 billion (up 10.5% over 1994);
- Total Deposits: PTE 5,539 billion (up 11.2%);
- Loans and Advances: PTE 4,407 billion (up 14.0%);
- Net Income for the Year: PTE 56 billion (up 14.2%);
- Solvency Ratio: 138.



PT BANK DAGANG NEGARA (PERSERO)

The BDN's current activities were a continuation of the Nederlandse Indische Ecomptro Maatschappij's banking operations established in Jakarta in 1857. The name was then changed into Ecomptrobank NV in 1949 and further into PT Ecomptrobank in 1958. PT Ecomptrobank was nationalized and liquidated bearing the name BDN as of April 11, 1960. The legal status of BDN (state-owned bank) became PT Persero, meaning state limited liability company. At present, the bank has 8,731 employees and 192 offices (incl. 8 overseas offices) and is among the fifth largest bank in Indonesia. The summary of the statement of condition of December, 1995 (Billion Rupiah) is total assets 27,609, deposits 14,456, loans 20,079, and profits before tax 236.



ROSTELECOM - means Skill to Work

Rostelecom is... international and long distance telecommunications joint stock company

- largest Russian carrier holding 90% of country's long distance market
- strong and reliable partner of more than 200 international carriers and 100 Russian local operators
- largest world digital telecom highway which complements the global telecommunications loop
- eminent standards, audit and finance reports, professional stock market approach

Rostelecom is a respected, reliable and fast growing Russian company



LIPPO BANK

Lippo Bank, established in 1948, is one of Indonesia's leading commercial banks with a network of 200 offices in 98 cities throughout Indonesia. As part of the Lippo Group of companies, it has subsidiaries, affiliates and representative offices throughout the Asia Pacific region - in Hong Kong, China, Philippines, Thailand, Singapore, Malaysia, Vietnam, Australia and California - and joint venture alliances in Indonesia with eminent banking names such as Banque Nationale de Paris, Tokai Bank, Daiwa Bank, Bankers Trust and GMAC. The shares of Lippo Bank are actively traded on the Indonesian stock exchanges.



GUTA BANK

Guta Bank is one of the most important banks in the Bank. Guta Bank provides its customers with an extended set of services comprising non-remittance services. This includes possible shares in the membership of the Bank in Gita Financial Group which includes companies of variously all business spheres - banking, portfolio management, insurance, real estate, insurance and foreign trade.

As of January 1, 1996 Gita Bank is rated 3th in terms of assets (USD 400 million) and 3th in terms of credit facilities among 100 major Russian banks ("Izvestia", April 30, 1996). It is the policy of the Bank to strengthen its stability and to enhance major risks for its customers. The first step in this direction is the formation of fully paid-in authorized capital of USD 60 million which is 10 times as much as the previous volume.



PT Polysindo Eka Perkasa

The company has rapidly grown as a leading integrated chemical and textile manufacturer in the Far East. The company is listed on the Jakarta Stock Exchange and has an equity of 1,104 million ordinary shares and after the proposed rights issue will increase to 3,208 million shares reflecting a market capitalization of IDR 2.78 trillion. Consolidated Operating Revenue rose to IDR 97 billion and Consolidated Net Income increased to IDR 21 billion in 1995, increase of 55.31% over the previous year. The company is in the final stages of completing a major expansion program to increase its production capacities to 200,000 tons of polyester chips, 100,000 tons of staple fiber, 100,000 tons of PTA and 220 million pairs of textile fibres per annum. The new plants are expected to commence commercial production in 1996.



MOST - BANK

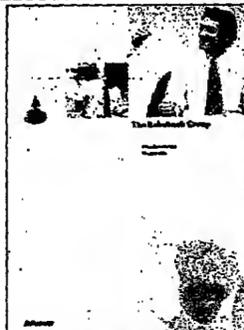
Most-Bank, the financial core of a large holding company, has more than 20 branches in Russia and representative offices in London and Madrid. It is certified by Prime Waterhouse and rated among Russian banks of the Highest Reliability Group. In 1995 the assets grew 1.6 times, reaching 3,637,344,811 Rub (97.2m US\$), and a total equity increased 2.9 times, reaching 413,919,811 Rub (97.2m US\$). The pioneer in card business and a major market-maker in government securities market, Most-Bank also provides project finance with a view on real estate development. Its large correspondent banking network connects major banks in all principal financial centres. In a rapidly changing economic and legal environment the bank renders consulting services to professional investors in Russian emerging financial markets.



PT INDOCEMENT TUNGGAL PRAKARSA

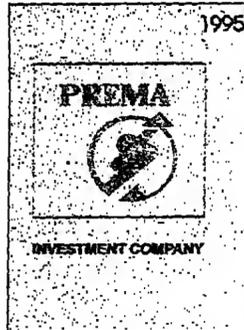
Since its founding in 1973, Indocement has become one of Indonesia's most profitable corporations, involved primarily in cement production and food manufacturing. Both PT Indocement Tunggak Prakarsa (Indocement) and PT Indofood Sukses Makmur (Indofood) are amongst the largest companies listed on the Jakarta and Surabaya Stock Exchanges. The company has over 27,000 dedicated employees in its employ as of the end of 1995.

The Group's net revenue in 1995 was Rp. 3,942.3 billion (up 16.4% on 1994) reflecting improvements in both the cement and food divisions. Gross profit and operating profit margins in 1995 were 36.5 and 26.1% respectively and the Group's earnings per share for the year ended 1995 improved to Rp 394 from Rp 305 in 1994.



THE RABOBANK GROUP

Ranking among the top 10 banks in Europe and top 50 worldwide, the strong Dutch Group comprises the co-operative Rabobank, insurance Interswiss and insurance De Lage Landen. With assets of NLG 293.5 billion and major domestic market shares in both retail and corporate sectors, it is increasingly expanding into international markets where its unparalleled food and agribusiness expertise is offered to clients through its extensive network in 30 countries. The Group brings a full range of banking, insurance, leasing and factoring products to clients both at home and abroad. Rabobank has gained a reputation for creative corporate finance as well as financial markets and investment banking activities, trust and private banking.



PREMA INVEST

The independent Russian company PREMA INVEST was created in April 1993 and began working in the emerging Russian share market. PREMA now occupies one of the top positions on the share market. Today PREMA possesses a strong brokerage network with branches in St. Petersburg, Ekaterinburg, Tyumen, Surgut and works successfully in the following sectors: brokerage and trading operations; investments and administration of projects; consulting services on investments in Russia; assets and portfolio management. Our monthly turnover exceeds 25 million dollars. We aim to strengthen long-term cooperation, and do not aim for short term profits. The success of our Clients is also the success of our company.



PEARSON plc

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RAO GAZPROM

Rao Gazprom is the world's biggest producer of natural gas. Established in 1992, its main areas of activities are: Onshore and offshore geological survey; Exploration and development well drilling; Gas, gas condensate and oil production, transportation and distribution; Underground gas storage; Gas exports; Gas usage as motor fuel; Research and development; Gas processing; Production of liquid hydrocarbons, ethanol, propylene-butane, sulphur and helium.

RAO GAZPROM produces 94 per cent of gas in Russia. Russia's share in world gas exports reached 39.7% in 1995.



OVERSEAS UNION BANK

Overseas Union Bank (OUB) is a premier consumer bank in Singapore and a leading regional bank. The OUB Group's international network of 74 offices in 16 countries provides a full range of services in consumer and corporate finance, treasury, international and investment banking. Established in 1947, OUB is today the fourth largest Singapore bank and the fifth largest commercial bank in ASEAN. Its group shareholders' funds stand at S\$2.94 billion and total assets amount to over S\$28.47 billion (figures at 31 December 1995).



SOLVAY GROUP

A Pioneer for Progress - Solvay is an international Group of chemical and pharmaceutical companies with total sales amounting to USD 9.3 billion in 1995. Solvay operates in 34 countries, employing more than 38,000 employees spread across more than 400 manufacturing sites. The strategy followed by Solvay is to be a world leader in six key sectors of activity - Alkali, Potassium, Phosphoric Processing and Health, to improve the quality and added value of its products and services through continuous and one-effective innovation - while also opening new geographical markets for them, mainly in the USA, Asia and Central Europe.

The Financial Times Annual Report Service is appearing on 25, 26, 27 & 28 June 1996

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- 83. Caixa Geral de Depósitos
- 84. PT Bank Dagang Negara (Persero)

- 85. Rostelecom
- 86. Lippo Bank
- 87. Guta Bank
- 88. PT Polysindo Eka Perkasa

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INTERNATIONAL CAPITAL MARKETS

Euro 96 puts gilts FRN auction in the shade

By Antonia Sharpe in London and Lisa Bransten in New York
Apart from a successful auction of \$3bn worth of floating-rate notes by the Bank of England...

German bunds also traded in a narrow range ahead of today's Bundesbank council meeting...

Italian bonds suffered a setback after comments by Mr Antonio Fazio, the Bank of Italy governor...

Paribas, said Mr Pazio's comments had dashed hopes of an early start of 75 basis points...

Near midday, the benchmark 30-year Treasury was down 1/4 at 7 1/2 to yield 7.045 per cent...

Prices of Russian debt traded on the secondary market rose further yesterday...

Hopes of political stability lift prices of Russian debt

By Richard Lapper, Capital Markets Editor
Prices of Russian debt traded on the secondary market rose further yesterday...

By late afternoon, the West Merchant Bank emerging country debt index (which includes dollar-denominated Vneshekonbank debt but not MinFin bonds) had risen by 0.5 per cent to reach 147.18.

China makes a successful comeback with \$700m offer

By Corner Middlemarch
The People's Republic of China made a successful comeback to the international bond market with a \$700m offering of five-year bonds...

and fuelled demand for China's latest offering. The bulk of the issue was being placed among European and Asian institutions...

been shunning 10-year dollar paper in recent months. C&S First Boston and Morgan Stanley are joint bookrunners.

Joint leads Goldman Sachs and Dresdner Bank said the bonds were sold mainly to continental European retail investors...

issue of two-year notes priced to yield 2 basis points over Treasuries, which was considered too tight by most dealers.

Primary activity is likely to be subdued today due to a London Underground strike which will prevent many dealers from getting to their desks on time.

EMERGING MARKET BONDS

price of 49.126 it is almost 20 per cent higher than immediately before the first round of the election earlier this month.

Mr Peter West, economic adviser at West Merchant Bank, said that it was "difficult to avoid the impression that the Yeltsin factor was having a positive impact on sentiment towards the emerging markets."

WORLD BOND PRICES

Table with columns: Country, Coupon, Price, Yield, etc. Includes Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Japan, Netherlands, Portugal, Spain, Sweden, UK Gilts, US Treasury, etc.

US INTEREST RATES

Table with columns: Rate, Bid, Offer, etc. Includes 1-month, 3-month, 6-month, 1-year, 2-year, 3-year, 5-year, 10-year, 30-year.

BOND FUTURES AND OPTIONS

Table with columns: Country, Contract, Price, Change, etc. Includes France, Germany, UK Gilts, etc.

UK GILTS PRICES

Table with columns: Issue, Price, Yield, etc. Includes Short-term, 12-month, 18-month, 2 1/2-year, 3 1/2-year, 4 1/2-year, 5 1/2-year, 6 1/2-year, 7 1/2-year, 8 1/2-year, 9 1/2-year, 10-year, 15-year, 20-year, 30-year.

BUND FUTURES OPTIONS (LIFE) DM250,000 points of 100%

Table with columns: Strike, Price, Change, etc. Includes 100, 110, 120, 130, 140, 150, 160, 170, 180, 190, 200.

ITALY

Table with columns: Contract, Price, Change, etc. Includes 100, 110, 120, 130, 140, 150, 160, 170, 180, 190, 200.

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFE) Lit200m 100pts of 100%

Table with columns: Strike, Price, Change, etc. Includes 100, 110, 120, 130, 140, 150, 160, 170, 180, 190, 200.

Spain

Table with columns: Contract, Price, Change, etc. Includes 100, 110, 120, 130, 140, 150, 160, 170, 180, 190, 200.

UK

Table with columns: Contract, Price, Change, etc. Includes 100, 110, 120, 130, 140, 150, 160, 170, 180, 190, 200.

LONG GILT FUTURES OPTIONS (LIFE) £50,000 32nds of 100%

Table with columns: Strike, Price, Change, etc. Includes 100, 110, 120, 130, 140, 150, 160, 170, 180, 190, 200.

ECU

Table with columns: Contract, Price, Change, etc. Includes 100, 110, 120, 130, 140, 150, 160, 170, 180, 190, 200.

US

Table with columns: Contract, Price, Change, etc. Includes 100, 110, 120, 130, 140, 150, 160, 170, 180, 190, 200.

Japan

Table with columns: Contract, Price, Change, etc. Includes 100, 110, 120, 130, 140, 150, 160, 170, 180, 190, 200.

Other Fixed Interest

Table with columns: Issue, Price, Yield, etc. Includes various international bonds.

NEW INTERNATIONAL BOND ISSUES

Table with columns: Issuer, Amount, Coupon, Price, Maturity, Fee, Spread, Book-number. Includes Borrower, US Dollars, etc.

FT-ACTUARIES FIXED INTEREST INDICES

Table with columns: Index, Price, Change, etc. Includes UK Gilts, US Treasury, etc.

FT FIXED INTEREST INDICES

Table with columns: Index, Price, Change, etc. Includes Govt. Secs, etc.

FT/ISMA INTERNATIONAL BOND SERVICE

Table with columns: Issued, Bid, Offer, etc. Includes US, UK, France, Germany, etc.

FT-ACTUARIES FIXED INTEREST INDICES

Table with columns: Index, Price, Change, etc. Includes UK Gilts, US Treasury, etc.

FT FIXED INTEREST INDICES

Table with columns: Index, Price, Change, etc. Includes Govt. Secs, etc.

FT/ISMA INTERNATIONAL BOND SERVICE

Table with columns: Issued, Bid, Offer, etc. Includes US, UK, France, Germany, etc.

CURRENCIES AND MONEY

MARKETS REPORT

Oil concerns push dollar towards key Y110 level

By Philip Gawth

The dollar yesterday made a tentative further push towards Y110, helped by the fallout from the Gulf oil blast which was seen as being potentially damaging to leading oil importers like Japan.

With the G-7 summit close at hand, as well as important policy meetings in the form of the Bundesbank council gathering today, as well as the Bank of Japan branch managers and FOMC meetings next week, there was little appetite to make a decisive push at an important level.

As a result, the dollar retreated from the fresh high of Y108.70 to close in London at Y108.52. Against the D-Mark, though, it closed lower at the DML5287, from DML5322 as the D-Mark made progress against the weaker yen.

On a day when Londoners found it difficult to think of much else besides the football match against old rivals Ger-

many, the pound finished slightly weaker against the D-Mark at DM2.3579, from DM2.3609. Against the dollar it closed at \$1.5425, from \$1.5409.

Elsewhere in Europe the lira retreated from the L1,000 level to finish at L1,004 against the D-Mark from L1,002. Mr Antonio Fazio, the central bank governor, sounded a cautious note about the prospect of a cut in interest rates.

Ahead of the big match last night there was little London traders could do save hope that their team did a better job of standing up to the Germans than the pound has managed against the D-Mark over the past thirty years.

Traders said the summer spirit was alive and well in the pound market.

One of the key factors behind the dollar's stronger performance against the yen lay in the weak Japanese export figures, which fell by 12 per cent in the 12 months to May.

Mr Jukes said the figures suggested that Japanese car manufacturers would be exporting fewer vehicles to the

dealership if not in the price action. Mr Kit Jukes, currency strategist at NatWest Markets in London, said: "Football is an everybody's mind, but there is not much you can do in the way of price action except buy tickets."

Mr John Wareham, head of foreign exchange marketing at Merrill Lynch in London, said that there was "serious evidence that the currency of a country hosting a large international sporting event appreciates in the run-up to the competition." There is less evidence of any correlation in the joyous or tearful aftermath.

Aside from the stronger tone against the yen, the dollar remained largely range-bound. Mr Wareham said this was



US, even if the yen weakened further. He said the view that the Japanese were anxious to avoid aggravating the trade dispute gave confidence that the dollar would be able to "ratchet" up slowly against the yen.

One New York based hedge fund analyst said: "I think the central banks are managing

likely to continue up until the G-7 meeting. With so little else to focus on, he said the market was devoting intense scrutiny to the G-7 meeting. Some recent utterances from various Bundesbank officials, however, have introduced the possibility that the summit may stop short of providing its normal words of support for the dollar.

"The Bundesbank has started to give slightly veiled hints that the D-Mark has finished weakening," he said. "The depreciation of the D-Mark might just have run its course." One possible reason why the D-Mark has been more stable recently may lie with the central banks. There have been numerous rumours of European central banks buying D-Marks in recent months, possibly in order to bolster their reserves which in many cases were depleted during the 1992/3 exchange rate turbulence.

One New York based hedge fund analyst said: "I think the central banks are managing

more than we think. They are doing a better job of managing - of slowing down the volatility. They are tempering the moves on both sides and I think that is relatively new."

Mr Wareham said the fact that the US, Germany and Japan were all believed to be happy with current exchange rates provided a reason for thinking that the G-7 might stay away from currencies altogether. According to this reasoning, saying nothing would offer fewer hostages to fortune than words which could be misinterpreted.

A British official was quoted by Reuters saying that the Lyon summit would have "nothing exciting" to say about currencies.

WORLD INTEREST RATES

Table of World Interest Rates showing rates for various countries like Belgium, France, Germany, Ireland, Netherlands, Switzerland, and the US.

Table of LIBOR FT London rates for various currencies including Sterling, US Dollar, and Japanese Yen.

LIBOR interest rates are offered as a guide to the market by four reference banks in London each working day. The banks are Barclays Bank, Bank of Tokyo, Deutsche Bank and Citibank.

Table of Euro Currency Interest Rates for various currencies like Belgian Franc, Dutch Guilder, French Franc, Portuguese Escudo, Spanish Peseta, and the US Dollar.

POUND SPOT

Table of Pound Spot rates for various countries including Australia, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, and USA.

DOLLAR SPOT

Table of Dollar Spot rates for various countries including Australia, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, and USA.

EURO CURRENCY INTEREST RATES

Table of Euro Currency Interest Rates for various currencies like Belgian Franc, Dutch Guilder, French Franc, Portuguese Escudo, Spanish Peseta, and the US Dollar.

Table of Three Month Eurocurrency Futures (LIFFE) DM100m points of 100%.

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Table of Three Month Eurocurrency Futures (LIFFE) DM100m points of 100%.

CROSS RATES AND DERIVATIVES

Table of Cross Rates and Derivatives showing exchange rates for various currencies like Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, and USA.

BASE LENDING RATES

Table of Base Lending Rates for various banks and currencies.

UK INTEREST RATES

Table of UK Interest Rates for various terms like 1 month, 3 months, 6 months, and 12 months.

EMS EUROPEAN CURRENCY UNIT RATES

Table of EMS European Currency Unit Rates for various currencies like Spain, Netherlands, Ireland, Belgium, Germany, Australia, Portugal, France, and Denmark.

UK MONTHLY STERLING FUTURES

Table of UK Monthly Sterling Futures (LIFFE) DM100m points of 100%.

US TREASURY BILL FUTURES

Table of US Treasury Bill Futures (IMM) \$1m points of 100%.

EMIRASIAN OIL OPTIONS

Table of Emirsian Oil Options (LIFFE) DM100m points of 100%.

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Table of Emirsian Oil Options (LIFFE) DM100m points of 100%.

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EMIRASIAN OIL OPTIONS

Table of Emirsian Oil Options (LIFFE) DM100m points of 100%.

Advertisement for Options on Futures as low as \$7 commission, featuring Lind Asia Limited and George's Building.

Large advertisement for LIFFE (London International Financial Futures Exchange) with the slogan 'The Euroyen Future from LIFFE and TIFFE'.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table listing alcoholic beverage companies and their share prices.

BANKS, MERCHANT

Table listing bank and merchant companies and their share prices.

BANKS, RETAIL

Table listing retail bank companies and their share prices.

BREWERIES, PUBS & REST

Table listing brewery, pub, and restaurant companies and their share prices.

BUILDING & CONSTRUCTION

Table listing building and construction companies and their share prices.

BUILDING MATS. & MERCHANTS

Table listing building materials and merchant companies and their share prices.

CHEMICALS

Table listing chemical companies and their share prices.

DISTRIBUTORS

Table listing distributor companies and their share prices.

DIVERSIFIED INDUSTRIALS

Table listing diversified industrial companies and their share prices.

ELECTRICITY

Table listing electricity companies and their share prices.

ELECTRONIC & ELECTRICAL EQPT

Table listing electronic and electrical equipment companies and their share prices.

ENGINEERING, VEHICLES

Table listing engineering and vehicle companies and their share prices.

EXTRACTIVE INDUSTRIES

Table listing extractive industry companies and their share prices.

ELECTRONIC & ELECTRICAL EQPT - Cont.

Continuation of electronic and electrical equipment companies.

ENGINEERING

Table listing engineering companies and their share prices.

ENGINEERING, VEHICLES

Continuation of engineering and vehicle companies.

EXTRACTIVE INDUSTRIES

Continuation of extractive industry companies.

ENGINEERING - Cont.

Continuation of engineering companies.

ENGINEERING, VEHICLES

Continuation of engineering and vehicle companies.

EXTRACTIVE INDUSTRIES

Continuation of extractive industry companies.

EXTRACTIVE INDUSTRIES - Cont.

Continuation of extractive industry companies.

FOOD PRODUCERS

Table listing food producer companies and their share prices.

FOOD PRODUCERS - Cont.

Continuation of food producer companies.

GAS DISTRIBUTION

Table listing gas distribution companies and their share prices.

HEALTH CARE

Table listing health care companies and their share prices.

HOUSEHOLD GOODS

Table listing household goods companies and their share prices.

INSURANCE

Table listing insurance companies and their share prices.

INVESTMENT TRUSTS

Table listing investment trusts and their share prices.

INVESTMENT TRUSTS - Cont.

Continuation of investment trusts.

INV TRUSTS SPLIT CAPITAL

Table listing split capital investment trusts and their share prices.

HOUSEHOLD GOODS

Table listing household goods companies and their share prices.

INSURANCE

Table listing insurance companies and their share prices.

INVESTMENT TRUSTS

Table listing investment trusts and their share prices.

INVESTMENT TRUSTS - Cont.

Continuation of investment trusts.

INV TRUSTS SPLIT CAPITAL

Table listing split capital investment trusts and their share prices.

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INVESTMENT TRUSTS - Cont.

Continuation of investment trusts.

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INVESTMENT TRUSTS

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Advertisement for ACL (Automotive Control Limited) featuring an image of a Treacle pudding and the text: 'In a word, THE ACL... For effective solutions to company car funding and management, the proof of the pudding is in the eating. 0800 269895'.

LONDON SHARE SERVICE

RIV TRUSTS SPLIT CAPITAL - Cont.

Table listing Riv Trusts Split Capital with columns for Name, Price, and other financial metrics.

OTHER INVESTMENT TRUSTS

Table listing Other Investment Trusts with columns for Name, Price, and other financial metrics.

INVESTMENT COMPANIES

Table listing Investment Companies with columns for Name, Price, and other financial metrics.

LEISURE & HOTELS

Table listing Leisure & Hotels with columns for Name, Price, and other financial metrics.

LEISURE & HOTELS - Cont.

Table listing Leisure & Hotels - Cont. with columns for Name, Price, and other financial metrics.

LIFE ASSURANCE

Table listing Life Assurance with columns for Name, Price, and other financial metrics.

MEDIA

Table listing Media with columns for Name, Price, and other financial metrics.

OIL EXPLORATION & PRODUCTION

Table listing Oil Exploration & Production with columns for Name, Price, and other financial metrics.

OIL, INTEGRATED

Table listing Oil, Integrated with columns for Name, Price, and other financial metrics.

OTHER FINANCIAL

Table listing Other Financial with columns for Name, Price, and other financial metrics.

OTHER FINANCIAL - Cont.

Table listing Other Financial - Cont. with columns for Name, Price, and other financial metrics.

PAPER, PACKAGING & PRINTING

Table listing Paper, Packaging & Printing with columns for Name, Price, and other financial metrics.

PHARMACEUTICALS

Table listing Pharmaceuticals with columns for Name, Price, and other financial metrics.

PROPERTY

Table listing Property with columns for Name, Price, and other financial metrics.

PROPERTY - Cont.

Table listing Property - Cont. with columns for Name, Price, and other financial metrics.

RETAILERS, FOOD

Table listing Retailers, Food with columns for Name, Price, and other financial metrics.

RETAILERS, GENERAL

Table listing Retailers, General with columns for Name, Price, and other financial metrics.

RETAILERS, GENERAL - Cont.

Table listing Retailers, General - Cont. with columns for Name, Price, and other financial metrics.

SUPPORT SERVICES

Table listing Support Services with columns for Name, Price, and other financial metrics.

SUPPORT SERVICES - Cont.

Table listing Support Services - Cont. with columns for Name, Price, and other financial metrics.

TELECOMMUNICATIONS

Table listing Telecommunications with columns for Name, Price, and other financial metrics.

TEXTILES & APPAREL

Table listing Textiles & Apparel with columns for Name, Price, and other financial metrics.

TOBACCO

Table listing Tobacco with columns for Name, Price, and other financial metrics.

TRANSPORT

Table listing Transport with columns for Name, Price, and other financial metrics.

WATER

Table listing Water with columns for Name, Price, and other financial metrics.

AIM

Table listing AIM with columns for Name, Price, and other financial metrics.

AIM - Cont.

Table listing AIM - Cont. with columns for Name, Price, and other financial metrics.

AMERICANS

Table listing Americans with columns for Name, Price, and other financial metrics.

CANADIANS

Table listing Canadians with columns for Name, Price, and other financial metrics.

SOUTH AFRICANS

Table listing South Africans with columns for Name, Price, and other financial metrics.

GUIDE TO LONDON SHARE SERVICE

Price for the London Share Service... This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each company...

Rockwell supplies virtually every European car manufacturer with automotive components and systems. Rockwell logo.

FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Table listing fund names, managers, and prices for Bermuda (SIB Recognised) funds.

BERMUDA (REGULATED)**

Table listing fund names, managers, and prices for Bermuda (Regulated) funds.

GUERNSEY (SIB RECOGNISED)

Table listing fund names, managers, and prices for Guernsey (SIB Recognised) funds.

GUERNSEY (REGULATED)**

Table listing fund names, managers, and prices for Guernsey (Regulated) funds.

GUERNSEY (REGULATED)**

Table listing fund names, managers, and prices for Guernsey (Regulated) funds.

IRELAND (SIB RECOGNISED)

Table listing fund names, managers, and prices for Ireland (SIB Recognised) funds.

LET Asset Management Ltd

Table listing fund names, managers, and prices for LET Asset Management Ltd funds.

IRELAND (REGULATED)**

Table listing fund names, managers, and prices for Ireland (Regulated) funds.

Dragon Korea Fund Pte

Table listing fund names, managers, and prices for Dragon Korea Fund Pte funds.

ISLE OF MAN (SIB RECOGNISED)

Table listing fund names, managers, and prices for Isle of Man (SIB Recognised) funds.

Memory Fund Managers Intl Ltd

Table listing fund names, managers, and prices for Memory Fund Managers Intl Ltd funds.

ISLE OF MAN (REGULATED)**

Table listing fund names, managers, and prices for Isle of Man (Regulated) funds.

JERSEY (SIB RECOGNISED)

Table listing fund names, managers, and prices for Jersey (SIB Recognised) funds.

Luxembourg Private Banking (CI) Ltd

Table listing fund names, managers, and prices for Luxembourg Private Banking (CI) Ltd funds.

LUXEMBOURG (SIB RECOGNISED)

Table listing fund names, managers, and prices for Luxembourg (SIB Recognised) funds.

JERSEY (REGULATED)**

Table listing fund names, managers, and prices for Jersey (Regulated) funds.

Fidelity Funds - Const.

Table listing fund names, managers, and prices for Fidelity Funds - Const. funds.

LUXEMBOURG (REGULATED)**

Table listing fund names, managers, and prices for Luxembourg (Regulated) funds.

ISLE OF MAN (REGULATED)**

Table listing fund names, managers, and prices for Isle of Man (Regulated) funds.

Schroder International Selection Fd

Table listing fund names, managers, and prices for Schroder International Selection Fd funds.

LUXEMBOURG (REGULATED)**

Table listing fund names, managers, and prices for Luxembourg (Regulated) funds.

ISLE OF MAN (REGULATED)**

Table listing fund names, managers, and prices for Isle of Man (Regulated) funds.

FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4376 for more details.

Main table containing fund names, descriptions, and prices. Includes sections for 'OTHER OFFSHORE FUNDS' and 'OFFSHORE INSURANCES'.

MANAGED FUNDS NOTES: Please see the notes on the previous page for details on the FT Cityline Unit Trust Prices service. The notes include information on how to use the service, the types of funds included, and the limitations of the service.

LONDON STOCK EXCHANGE

MARKET REPORT

Footsie bounce masks weakness at lower levels

By Peter John

London appeared to shrug off the "Sell in May" curse that had dragged the FT-SE 100 index down 80 points over six straight trading days.

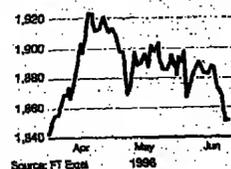
In the near term. Most had already cut their prices and were merely hoping that the Footsie futures contract was not going to fall much further.

The other side of this so-called "bed and breakfast" trade appeared on the trading screens first thing yesterday and was responsible for 12 per cent of yesterday's turnover of 745.3m shares.

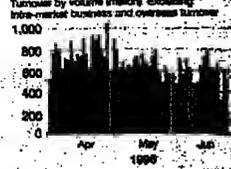
Upgrades to downgrades and was partly responsible for the FT-SE Mid 250 index falling 19.2 to 4,365.3. The Mid 250 has outperformed the Footsie by 10 percentage points since the start of the year.

Average down by about 10 points when London closed, the FT-SE 100 ended 16.0 up at 3,955.5, back towards the bottom of its recent trading range which is seen to be between 3,850 and 3,850.

FT-SE All-Share Index



Equity shares traded



Indices and ratios

Table with columns for Index Name, Value, Change, and Ratio. Includes FT-SE 100, FT-SE Mid 250, FT-SE All-Share, and various ratios like Dividend Yield and P/E Ratio.

Best performing sectors

Table listing top performing sectors: Diversified Industrials (+1.7), Alcoholic Beverages (+1.2), Oil Integrated (+1.0), Pharmaceuticals (+0.8), and Insurance (+0.8).

Worst performing sectors

Table listing bottom performing sectors: Electronic & Elect Equip (-3.0), Health Care (-1.3), Building & Construction (-1.1), Extractive Industries (-0.8), and Engineering: Vehicles (-0.8).

Broker move hits S&N

A profits downgrade hit health care group Smith & Nephew, sending the shares lower. The stock lost more than 4 per cent of its value after falling 8% to 200 1/4, the worst performer in the Footsie.

Builders weak

Construction shares moved against the trend, with housebuilders in particular showing clear weakness. The announcement that Costain was to miss its results deadline cast a shadow over building issues.

Financial Times Equity Indices

Table showing performance of various equity indices (FT-SE 100, Mid 250, All-Share, etc.) over the last 5 days and 1 month.

London recent issues: equities

Table listing newly issued equities, including company names, issue sizes, and prices.

Trading volume

Table showing trading volume for major stocks yesterday, including company names and volume in thousands of shares.

Tomkins rebounds. Leading conglomerate Tomkins was the best Footsie performer in heavy volume as brokers upgraded earnings forecasts following regulatory approval for the Gates Rubber deal.

Costain stopped trading at 3p (down 31) after the company requested a suspension in the face of heavy selling. National Grid was once again the busiest trade of the day.

British Airways, a dull market lately on worries that its planned marketing link with American Airlines could be foiled by the competition authorities, bounced 6 to 533p.

Kingfisher was one of the strongest performers in the retail sector, rising 9 to 637p. The group confirmed that it had secured a listing on the French stock exchange as well as lifting its stake in BUT.

Amstrad stayed firm following Tuesday's announcement of talks with computer electronics rival Psion. The shares rose 6 to 190p.

Futures and options

Table showing futures prices for FT-SE 100 and Mid 250, including open, high, low, and settlement prices.

Table showing option prices for FT-SE 100, including call and put options at various strikes.

Table showing option prices for FT-SE Mid 250, including call and put options.

Table showing option prices for FT-SE All-Share, including call and put options.

FT-SE Actuarial Share Indices

Table showing actuarial share indices for various sectors like Chemicals, Food, and Pharmaceuticals.

Table showing actuarial share indices for other sectors like Energy, Finance, and Retail.

Advertisement for Austrian Airlines and Citibank, featuring a large image of an Airbus A321-111 aircraft and text about cross-border lease financing.

Advertisement for Midland Bank plc, offering a U.S. \$750,000,000 floating rate primary capital raise.

Advertisement for The Royal Bank of Canada, offering a U.S. \$500,000,000 floating rate note.

Advertisement for MARGINED CURRENCY DEALING by Laurion, offering flexible managed accounts and limited liability guarantees.

Advertisement for Fokker Bondholders, offering a U.S. \$200,000,000 floating rate note.

Advertisement for Cie Fin OTTOMANE S.A., offering shareholding services and dividend payments.

Advertisement for COUNTRY SURVEYS ON DISK, offering a software package for property valuation.

Advertisement for Les Echos, a French business newspaper, offering recruitment advertising opportunities.

Advertisement for ALLIANCE, offering a U.S. \$200,000,000 floating rate note.

Advertisement for Country Surveys on Disk, offering a software package for property valuation.

FT-SE Gold Mines Index

Table showing the FT-SE Gold Mines Index and its components, including company names and prices.

The UK Series

Table showing the UK Series of actuarial share indices, including company names and prices.

Hourly movements

Table showing hourly movements in the FT-SE 100 index from 9:00 AM to 4:00 PM.

FT-SE Actuarial 350 Industry baskets

Table showing 350 industry baskets for FT-SE Actuarial, including sectors like Chemicals, Food, and Retail.

Large table showing trading volume for major stocks yesterday, including company names and volume in thousands of shares.

WORLD STOCK MARKETS

EUROPE

Table of stock market data for Europe, including Austria (Jun 26 / Sch), Germany (Jun 26 / Dm), Italy (Jun 26 / Lit), and the UK (Jun 26 / Pst).

Table of stock market data for Europe, including France (Jun 26 / Frk), Greece (Jun 26 / Dr), Ireland (Jun 26 / Pst), and the Netherlands (Jun 26 / Fl).

Table of stock market data for Europe, including Portugal (Jun 26 / Escudo), Spain (Jun 26 / Pst), and Switzerland (Jun 26 / Frk).

Table of stock market data for Europe, including Turkey (Jun 26 / Lira), Hong Kong (Jun 26 / HK\$), and India (Jun 26 / Rupee).

Table of stock market data for Europe, including Indonesia (Jun 26 / Rupiah), Malaysia (Jun 26 / MYR), and Singapore (Jun 26 / S\$).

Table of stock market data for Europe, including New Zealand (Jun 26 / NZ\$), South Africa (Jun 26 / Rand), and Africa (Jun 26 / Rand).

Table of stock market data for Europe, including Australia (Jun 26 / A\$), Canada (Jun 26 / Cdn\$), and Mexico (Jun 26 / Mex\$).

Table of stock market data for Europe, including Brazil (Jun 26 / Real), Chile (Jun 26 / Chilean\$), and Colombia (Jun 26 / Colombian\$).

Table of stock market data for Europe, including Peru (Jun 26 / Peruvian\$), Venezuela (Jun 26 / Bolivar), and Argentina (Jun 26 / Argentine\$).

Table of stock market data for Europe, including Uruguay (Jun 26 / Uruguayan\$), Paraguay (Jun 26 / Paraguayan\$), and Ecuador (Jun 26 / Ecuadorian\$).

Advertisement for Peregrine: 'Asia - Buy, Sell or Hold? Speak to Peregrine, the leader in Asian equities, derivatives, country funds, fixed income securities and GDR's. PEREGRINE Asian focus, global distribution.'

Table of stock market data for Europe, including South Korea (Jun 26 / Won), Taiwan (Jun 26 / New Taiwan\$), and Thailand (Jun 26 / Thai Baht).

Table of stock market data for Europe, including the Philippines (Jun 26 / Philippine\$), Singapore (Jun 26 / S\$), and Malaysia (Jun 26 / MYR).

Table of stock market data for Europe, including Indonesia (Jun 26 / Rupiah), Vietnam (Jun 26 / Dong), and Cambodia (Jun 26 / Riel).

Table of stock market data for Europe, including Laos (Jun 26 / Kip), Myanmar (Jun 26 / Kyat), and Brunei (Jun 26 / Brunei\$).

Table of stock market data for Europe, including Timor-Leste (Jun 26 / Dolar Timor-Leste), East Timor (Jun 26 / Dolar Timor-Leste), and other regional markets.

Table of stock market data for Europe, including various international indices and regional market performance.

Table of stock market data for Europe, including various international indices and regional market performance.

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INDEX FUTURES, US INDICES, and other market summary information.

4 pm close June 26

NEW YORK STOCK EXCHANGE PRICES

Main table containing stock prices for various companies, organized in columns with headers for company names, prices, and other financial metrics.

Advertisement for Hewlett-Packard featuring the text 'Perfect synergy' and 'If the business decisions are yours, the computer system should be ours.' Includes the HP logo and website URL.

Continued on next page

NYSE PRICES

Table of NYSE stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'Continued from previous page', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z', and 'AMEX PRICES'.

NASDAQ NATIONAL MARKET

Table of NASDAQ National Market stock prices including columns for stock name, price, change, and volume. Includes sub-sections for 'Continued from previous page', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z', and 'AMEX PRICES'.

Advertisement for Norway newspaper delivery. Text: 'Have your FT hand delivered in Norway... Main the edge over your competitors by having the Financial Times delivered to your home or office every working day. Hand delivery services are available for all subscribers in the business centres of Bergen, Oslo, Stavanger and Trondheim. Please call +46 8 791 23 45 for more information. Financial Times. World Business Newspaper.'

AMERICA

Drop in tech shares weighs upon equities

Wall Street

Tumbling technology shares weighed on the US equity market as the Nasdaq continued the fall that has taken it down by nearly 8 per cent since its record high early this month, writes Lisa Branstetter in New York.

In early afternoon trade the Nasdaq composite, which is weighted towards the technology sector, was off 22.75 at 1,149.88, almost exactly 100 points below its record close of 1,249.15 set on June 5.

The Dow Jones Industrial Average was off 41.37 at 5,677.50. The Standard & Poor's 500 fell 4.99 to 963.79 and the American Stock Exchange composite was 4.74 lower at 577.00. Volume on the NYSE was 206m shares.

Declines in the technology sector were widespread across most sectors of the market, with both new Internet stocks, with no earnings, and old-line companies, such as hardware manufacturers and semiconductor makers, losing ground.

Falling semiconductor shares included Texas Instruments, off 2 1/2% or 4 per cent at \$48 1/2, Motorola, 1 1/2% or 3 per cent weaker at \$61, and Intel, 1 1/2% down at \$71. Computer makers were also mostly

lower. Compaq dipped 1 1/2% to \$46 1/2, IBM 1/2% to \$88 1/2, Dell 3/4% to \$47 1/2, and Gateway 2000 1 1/2% to \$27 1/2.

Among Internet-related issues, Netscape retreated \$4 to \$54 1/2, Uninet lost \$2 1/2 to \$54 1/2, and Yahoo! receded 1/4% to \$21. Omega, the manufacturer of computer disk drives that had a price/earnings ratio of 169 in mid-May when its shares hit a high of \$54, tumbled 3 1/2% to \$22 1/2 and was the most actively traded issue on the Nasdaq at midday.

Elsewhere, investors appeared to be preparing for a slowing of the economy as defensive consumer non-durable shares outperformed cyclical stocks. The Morgan Stanley index of consumer shares fell 0.6 per cent by midday yesterday, while the composite index of cyclical shares was 0.9 per cent weaker.

Falling cyclical shares in the Dow included Boeing, off \$1 at \$89 1/2, Caterpillar, 1/2% weaker at \$87 1/2, and General Motors, 3/4% lower at \$62 1/2.

Canada

Toronto was depressed by worries about a rise in US interest rates, after the firmer than expected US durable goods numbers during the morning. The TSE 300 composite index was 30.85 down by noon at 5,899.00 in volume of 35.5m shares.

Gold issues fell as bullion prices dropped. Barrick Gold slipped 30 cents to C\$37.25. Fullcrum Technologies put on 10 cents at C\$30 on news that it had signed a deal to buy soft-

ware technology from America Online for an undisclosed amount. Placer Dome, which unveiled plans to cut 100 of the 325 jobs at its Sigma mine, in an effort to curb high production costs, lost 30 cents to C\$35.60.

Latin America

São Paulo rebounded to recoup Tuesday's 1.9 per cent fall and, by midsession, the Bovespa index was 1,202.45 higher at 82,027.

Analysts noted that Tuesday's profit-taking followed three sessions during which the market rallied 6.7 per cent and was prompted by concern that the telephone companies would not be mentioned today when the government outlined its privatisation plans until the end of 1996.

MEXICO CITY edged higher on continued banking and the IPC index was 13.02 firmer by midsession at 3,173.00.

SOUTH AFRICA

Industrial shares moved ahead on optimism built on a prime rate cut by three major banks, healthy consumer inflation data and peaceful KwaZulu-Natal local government elections. Golds, however, were depressed by a dull bullion market, although dealers said there were few sellers at the lower levels because of an expected upward movement in the gold price in the medium term. The overall index was up 22.1 to 6,313.9, industrials gained 38.6 at 3,172.3 and golds fell 28.9 to 1,791.1.

EUROPE

Financials take Zurich to all-time high

Strength in financials propelled ZURICH to an all-time high, the SMI index rising 28.3 to 3,723.5.

UBS beamed climbed SFR26 or 2.7 per cent to SFR1,200 in runaway driven trade. One rumor suggested that Mr. Martin Ebner's EZ banking group wanted to buy CS Holding's Bank Leu, in return for which CS Holding would receive the UBS shares held by EZ.

Another rumor was that the bank might have sold its hospital group, Hirslanden, for up to SFR500m. A more mundane explanation was that the shares were driven by warrants due to expire in mid-July.

CS Holding was SFR150 higher at SFR1,178 and Swiss Re registered shares picked up SFR22 to SFR1,280 on the view that both were recent underperformers.

Swissair added 1.4 per cent as it hurdled a key resistance level, and as recent consolidation presented a buying opportunity. The restated closed SFR22 higher at SFR1,235.

Analysts said that the shares overcame resistance at SFR1,190, which triggered buying, as had a reassessment of the May load factor data, reported on Monday, which disappointed some investors.

The Novartis partners overcame an early consolidation of their recent strong gains. Sandoz finished SFR9 ahead at SFR1,432, up from a low of SFR1,410, while Ciba was SFR2 ahead at SFR1,521 after SFR1,499, in spite of expectations that the European Commission was likely to impose conditions on the merger because of the company's strong position in the crop protection market. Roche certificates jumped SFR65 to SFR3,465.

FRANKFURT was unable to break through Tuesday's new highs. But banks improved, first on news that Deutsche Bank was considering the reduction or outright sale of some stakes in a number of industrial companies, and secondly on unchanged West German CPI figures for June.

Deutsche rose 85 pips to DM71.83 in a relatively strong sector, where the interest rate-sensitive Bayernverein led with a gain of 90 pips, or 2.2 per cent, at DM42.08. Dräger, in which Deutsche owns 24.3 per cent, declined DM10.10 to DM33.91.

Another carmaker was hit by Europtimism, Volkswagen dropping DM8.85 to DM65.40 after the European Commission prohibited DM240.7m in investment aid promised to two former East German plants.

VW said that it would halt its plans for additional investment at its Saxon car engine plant in Chemnitz, and an assembly plant in Mosel.

while the Italian motor market had been difficult in the first part of 1996, the second half should show improvement.

PARIS, where the opening was delayed for three hours by technical problems, saw a slight technical correction. The CAC-40 index lost 5.15 at 2,118.28 in modest turnover of FF3.84bn. BNP fell FF7.70, or 4.1 per cent, to FF179.90 after a two-day gain of 6.8 per cent last Friday and Monday. Euro-tunnel dipped 35 centimes, or 3.9 per cent, to FF6.55 following a 40 per cent gain since midsession.

New-based moves included a fall of FF7 to FF7.06 in Peugeot, the carmaker's chairman said again that the business climate was difficult. Pechiney, FF2.20 lower at FF218.50 on a return on earnings prospects, and Pinault-Prindome, FF30 higher at FF1,787 after the broker Massonnet confirmed the positive recommendation of the retailer's stock.

STOCKHOLM balanced

FT-SE ACTUARIAL WORLD INDICES

Table with columns: Index, 1996, 1995, 1994, 1993, 1992, 1991, 1990, 1989, 1988, 1987, 1986, 1985, 1984, 1983, 1982, 1981, 1980. Rows include US, UK, Japan, etc.

THE EUROPEAN SERIES

Table with columns: Index, 1996, 1995, 1994, 1993, 1992, 1991, 1990, 1989, 1988, 1987, 1986, 1985, 1984, 1983, 1982, 1981, 1980. Rows include Germany, France, UK, etc.

weakness in the US equity market, and its knock-on effect on Ericsson and Volvo, against recovery in Astra after Tuesday's losses. Overall, losers outweighed winners and the Affärsvärlden General Index fell 5.3 to 1,975.2.

Astra A rose SKr6 to SKr208, but Ericsson B fell SKr4.50 to SKr141.50 on rumours of an impending profit warning, and Volvo B, US-influenced, slipped SKr3 to SKr150.

WARSAW rose for the fourth straight session, closing at a high. It was led ahead by large capitalisation stocks such as banks. The Wig index rose 19.2 to 13,675.2.

Some of the day's best performances were seen in shares picked in a draw to start continuous trading on July 8. Elektrim rose 1.30 zlotys, or 5.9 per cent, to 23.20 zlotys.

MOSCOW hit yet another new peak, the Moscow Times index climbing 17.43, or 5.4 per cent, to 327.29, up by around 90 per cent since mid-May.

Traders said western investors were flooding the market with buy orders, convinced that Russian President Boris Yeltsin will win re-election next Wednesday, and that the ousting of four banks from the president's team of ministers pointed to further reform.

Manila saw late-session accumulation of selected B shares and put it down to foreign investors. The composite index gained 23.81 at 3,240.38, in heavy turnover of 3.7bn pesos.

HONG KONG rose on a better performance in the US bond market. The Hang Seng index closed 77.15 higher at 11,059.92 in flat turnover of HK\$4.2bn. SHENZHEN Bc had a technical bounce, rising 2.90, or 3.7 per cent, to 80.94. After hours, a source official indicated that the authorities ban on Chinese citizens trading Bc shares was unlikely to be entered in the short term.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Table with columns: Market, No. of stocks, June 21 1996, % Change, June 14 1996, % Change, June 21 1995, % Change, June 14 1995, % Change. Rows include Latin America, Asia, Europe, etc.

A warning was sounded yesterday that foreign investors might retreat from Bangkok's stock exchange if the country's export growth was not reversed and the high current account deficit showed no signs of narrowing. Thai Farmers Research Centre, a private research agency, added that improved economic indicators and a stable currency were necessary if the market was to recover in the second half of the year.

After a sharp improvement which began last November, the market reached a peak for the year on February 6. Subsequent declines left the SET index down 13.5 per cent by last Monday, when it plunged to a low.

The centre estimated that net foreign investment in the Thai bourse rose by Bt\$6.6bn during the first half of 1996, largely as a result of a strong foreign capital inflow during the first quarter. However, it warned that any doubts among foreign investors about the stability of the baht could hurt Thai stocks. Recent market speculation has suggested that the central bank might soon widen its daily baht trading range to discourage speculative imports of short-term funds that were used for arbitrage on the large gap between Thai and foreign interest rates.

Dhaka saw a third straight session of profit-taking yesterday after the steep rise which greeted the new government's pledges to run the country on the basis of a broadly based consensus, to maintain free market policies and to restore law and order. The DSE all-share index rose by 8 per cent between June 11, the day before the elections, and last Sunday. One analyst suggested the market was likely to move swiftly ahead again if the government as expected withdrew a restriction on foreign investors from selling initial public offerings within one year. Foreigners were reported to have sold more than \$80m worth of shares since the ban was imposed two years ago.

ASIA PACIFIC

Worried Seoul in third consecutive decline

Worries about the South Korean economy, and a heavy overhang of margin loans, took SMOG into its third consecutive day of decline. The composite index closed 13.31 lower at 823.63, down 4.7 per cent on the week so far.

Fears that the economy was on a downturn combined with a margin loan overhang, put down Won2,600bn, to valuations of large-cap stocks on the market. One broker was looking for the index to fall to 780 in the short term. Others argued for a rebound, hoping for government intervention, such as an expansion of the foreign stock ownership limit and a postponement of planned IPOs and rights issues.

Tokyo

The decline in the yen lifted large-cap steels and export blue chips, and the broad market gained ground, writes Emilio Terranova in Tokyo.

The Nikkei 225-share average was finally 69.50 up at 22,005.50 after moving between 22,572.58 and 22,750.70. Domestic institutions placed large lot buying orders for steels and shipbuilders, and the rise in the dollar against the yen also helped other cyclical.

Volume totalled 453.9m shares, against 47m. Traders noted large-lot orders from Daiwa Securities Arbitrageur, and also stepped up their buying in tandem with the futures market, while investment trust funds indicated interest.

The Toxip index of all first section stocks rose 6.60 to 1,722.13 and the Nikkei 500 by 1.13 to 318.70. Advances led declines by 511 to 413, with 209 issues unchanged.

In London the ISE/Nikkei 50 index put on 1.26 at 1,633.00. Foreign investors chased big internationals, and dealers looked for short term gains among high-technology stocks. Sony rose Y30 to Y7,820 and Matsushita Electric Industrial Y50 to Y2,080. Carmakers, however, came under profit-taking.

Honda Motor fell Y30 to Y2,900 and Nissan Motor Y16 to Y9,740. Sumitomo Corporation, the trading house, fell Y14 to Y965, down 20.2 per cent since it announced that it had lost \$1.8bn through unauthorized copper trading losses. Domestic and foreign investors had feared that the loss figure could be larger and Moody's, the US credit rating agency, said yesterday that it was including Sumitomo's short term debt in its ratings review.

Toei, the firm company, rose Y82 to Y916. The company is the second largest shareholder in TV Asahi, the national television network of which 21 per cent will be bought by a joint

venture owned by Softbank and News Corporation.

Among speculative favourites, Clatcom, the car audio equipment maker, rose Y18 to Y968 and Harwa, the steel trader, by Y38 to Y485.

In Osaka, the OSE average moved up 81.64 to 29,355.43 in volume of 71.2m shares.

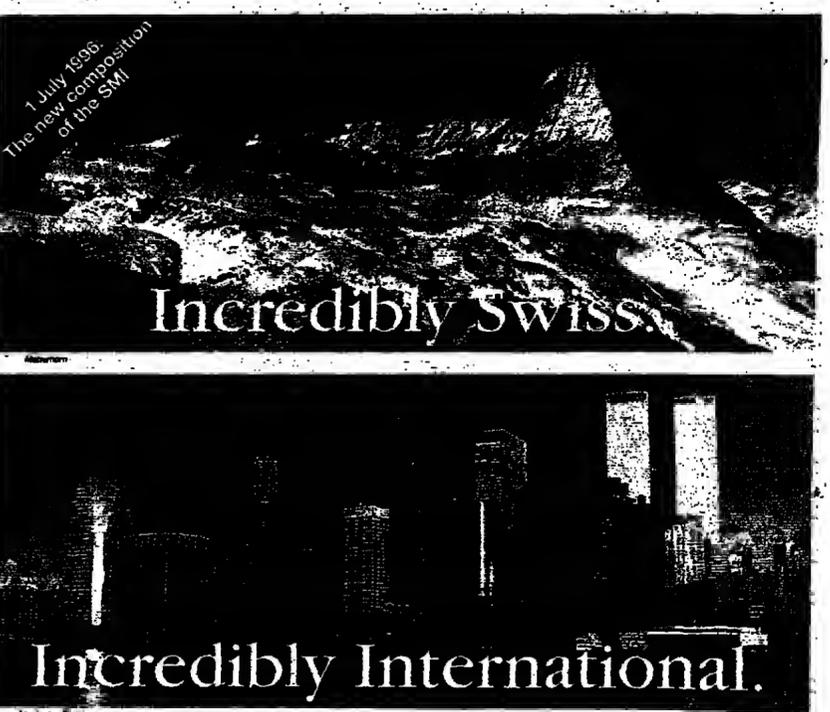
Roundup

A pre-budget slide led BOM-BAY 1.6 per cent lower. The BSE-30 index shed 63.31 to 3,792.75. COLOMBO fell below the 600 barrier, the CSE all-share losing 4.88 at 693.10. But the traffic was not all one way. United Motors rose SRS3.25,

or 12.6 per cent, to SRS99.

SINGAPORE investors sat on the sidelines, and the Straits Times Industrial index shed 14.10 to 2,294.96 in volume, traded through the Singapore dollar, of 49.8m shares, the lowest this year. KUALA LUMPUR had a harder time, and on more specific concerns. The KLSE composite index dipped 6.11, or 1.4 per cent, to 1,130.77 on interest rate worries following the comments of deputy prime minister Mr Anwar Ibrahim on Tuesday that Malaysia was still concerned about inflation.

JAKARTA reported active, foreign-led buying of bluechips. The JKSE composite index



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Table with columns: Index, 1996, 1995, 1994, 1993, 1992, 1991, 1990, 1989, 1988, 1987, 1986, 1985, 1984, 1983, 1982, 1981, 1980. Rows include US, UK, Japan, etc.

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China

As Chinese leaders reach a crucial stage in their programme of economic reform, Tony Walker examines their priorities both at home and abroad

Year of the watershed

China faces a critical 18 months in its continuing efforts to advance its market reforms, preserve economic and social stability and further integrate its economy with the global system. There is little room for complacency.

Indeed, 1996-1997, the first year of the ninth five-year plan (1996-2000), is likely to prove something of a watershed in the country's transformation from a rigid centrally-planned system to a market economy, and in China's relations with the outside world.

Challenges loom on many fronts. Among them will be the resumption of sovereignty over Hong Kong at midnight on June 30, 1997. China will need a deft touch in dealing with fractious Hong Kong democrats; the international community will be poised to criticise the first sign of Beijing's heavy hand.

Preservation of confidence in Hong Kong will be governed to an extent by a relatively trouble-free transfer of power. China's own credibility will be at stake, but it is not clear that the country's leaders understand fully the dimensions of the task.

In a special interview for this supplement (see story, page 3), the premier, Mr Li Peng, said that China is committed to a "stable transition and smooth transfer of government" and wants to "take over in a very dignified and honourable manner". These are positive sentiments, but the practicalities of ruling through surrogates will require a greater degree of sensitivity than Beijing has displayed so far on issues such as the planned liquidation of the popularly elected Legislative Council and proposed restrictions on press freedom.

The Hong Kong takeover will be followed later in 1997 by a Communist Party Congress - an event held every five years, whose importance in Chinese terms cannot be overstated. Adding immeasurably to the significance of the 15th Congress is the fact that it will endorse a new leadership and policies to carry China into the next millennium. Officials have been talking increasingly about these crucial "trans-century" tasks.

They include building the infrastructure necessary to underpin China's desires to become an economic superpower. Apart from the ninth five-year plan, with its emphasis

on ambitious capital works projects such as the \$30bn Three Gorges Dam on the Yangtze, which will be completed in 2009, China has formulated a longer-term 15-year strategy. This provides a blueprint for development well past 2000 and envisages expenditures of up to \$1,000bn on infrastructure in the decade and a half to 2010 - a figure that provides an indication of the scale of changes to be wrought in the next stage of China's economic revolution.

In the current phase, there is the risk that preoccupation with internal politicking in preparation for the congress will deflect attention from reforms. The leadership continues to be enmeshed in a difficult transition to a new generation to replace that of Mr Deng Xiaoping, the ailing 91-year-old patriarchal leader, whose lingering departure from the scene is proving to be a heavy burden on his successors.

But, at the same time, the country's rulers will be anxious to present China's best face not only to an international audience, but also to a domestic constituency. These pressures have implications for both economic and foreign policymaking.

Like their counterparts in the west, Chinese leaders are themselves running for office. As well as ensuring that the takeover of Hong Kong proceeds smoothly, they will want China's economy to be seen to have made a "soft landing" after the problems of overheating and excessive inflation in the 1993-1995 period.

A credit squeeze imposed in August 1993, has gradually wrung inflation from the economy; retail prices are forecast to rise about 10 per cent this year compared with 21.7 per cent in 1994. Economic growth has been brought down to about 10 per cent and the target for 1996 is 8.9 per cent.

But economic policymakers face difficulties over the next year or so in maintaining robust levels of growth while holding down inflation. Worries have begun to surface about the economy slowing more quickly than desirable, and inflationary pressures may build again in the second half of this year. However, the first five months' figures show a continued downward trend in inflation and economic growth being maintained. On the other hand, export growth has

slowed markedly, raising questions about an "overvalued" yuan.

China cut interest rates on May 1 as part of efforts to ease pressures on debt-burdened state enterprises and to encourage increased economic activity. Credit has been easier since the last quarter of 1995, but central bankers insist that tight monetary policy will continue.

Working in favour of a steady economic course is what appears to be a fair degree of consensus among leaders about the way ahead, although individuals may differ on the pace of reform. By and large, China, in its economic reforms, is following the script laid down by the Third Plenum of the 14th Party Central Committee in 1993.

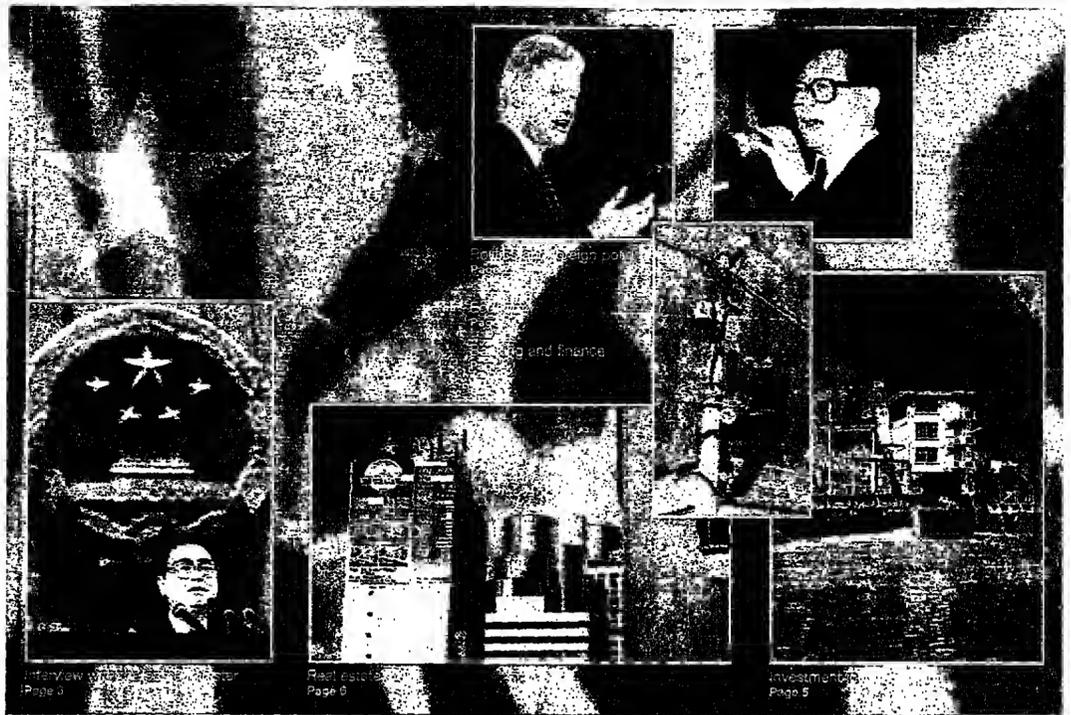
This established a framework for financial sector reform and also addressed the vexed issue of public ownership - a potential battleground in a system that remains nominally "socialist". The decision

In the current phase, there is the risk that internal politicking will deflect attention from reforms

to preserve government control over key sectors helped define those areas that could be hived off to the private sector.

But reform of the state sector, half of whose enterprises are loss-making, is proving a "stop-go" affair. The leadership makes much of its commitment to the "restructuring" of state-owned enterprises, but political worries about unemployment mean that progress is painfully slow. The World Bank, for one, is urging a more determined effort, arguing in a recent report that speedier reform is critical to China's continuing economic transformation. The bank has also pressed Beijing to pay greater attention to improving central government finances, one of China's glaring weaknesses.

"Efficiency gains from economic reforms have played an important part in China's impressive growth performance since 1978. Harvesting these gains will be as important in the future, if not more



so," the report said. "To do this, the government will need to maintain the momentum of reforms in two strategic directions. The first would place greater reliance on market forces, with an emphasis on state enterprises and the financial sector. The second would stress restoring the health of government finances by raising government revenue as a share of GDP and shifting the focus of government expenditure policy toward such priority areas as health and education, poverty reduction, infrastructure development, and environment protection."

China's leaders appear convinced, however, that a "gradual" approach is most appropriate. "We think that the market plays a fundamental role in the allocation of resources; but in China, a socialist country, its role can only be brought into full play under the government's macro-regulation and control," says Premier Li Peng.

Mr Li's message is clear: the leadership plans to keep a tight rein on economic, political and social developments. Priority will continue to be given to economic reform, but greater emphasis will be placed on what the premier describes as a "shift from an extensive growth economy to an intensive growth economy, or rather, change from quantitative growth to more efficiency-oriented growth".

Fine-tuning an economy is never easy, even in the most sophisticated industrialised countries. In China, which is at a relatively raw stage of economic development, the task is considerable. It is, however, a measure of the apparent growing self-confidence of China's leadership that it feels able to begin refining its priorities.

Apart from seeking to encourage more effective use of scarce resources, China has earmarked, in its ninth Five-Year Plan, expenditures of \$300bn-400bn on improving power supplies, telecommunications, transport and water conservancy. Some 15 to 20 per cent of these funds are expected to come from foreign

sources, including, increasingly, commercial borrowing.

One of the main aims of increased infrastructure spending (see story, page 5) is to overcome striking regional disparities - between relatively prosperous coastal regions, where the bulk of foreign investment is concentrated, and an impoverished hinterland. Improved communications is seen as vital to the process of nurturing the "creeping prosperity" that is making its way across the country from east to west.

Other pressures on the leadership to redouble efforts to bind the country together include renewed concerns about "separatism" on China's frontiers. Drawing lessons from the break-up of the former Soviet Union, China has taken a strong stand recently against separatist activity in its far-west Xinjiang region and in Tibet. Beijing is also

keeping a weather eye on Inner Mongolia, whose ethnic people need only look across their frontier to Mongolia itself to witness a fairly robust process of democratisation.

Worries about separatism are also linked to the Taiwan issue, which continues to figure largest among all Chinese concerns, outstripping even the economy in its impact on domestic leadership politics.

China's overheated response to last year's visit to the US by the president of Taiwan, Mr Lee Teng-hui, and to presidential elections this year is related directly to leadership manoeuvring in Beijing during a difficult political transition. No Chinese leader can afford to be seen as "soft" on the Taiwan issue, hence a tendency for aspirants to seek to "outbid" each other in fashioning hardline responses to Taiwan's attempts to secure more international breathing

space. All the sound and fury during the March presidential poll, including missile tests into waters near Taiwan's main ports, also provided a platform for the Chinese military to flex its muscles: both militarily and politically.

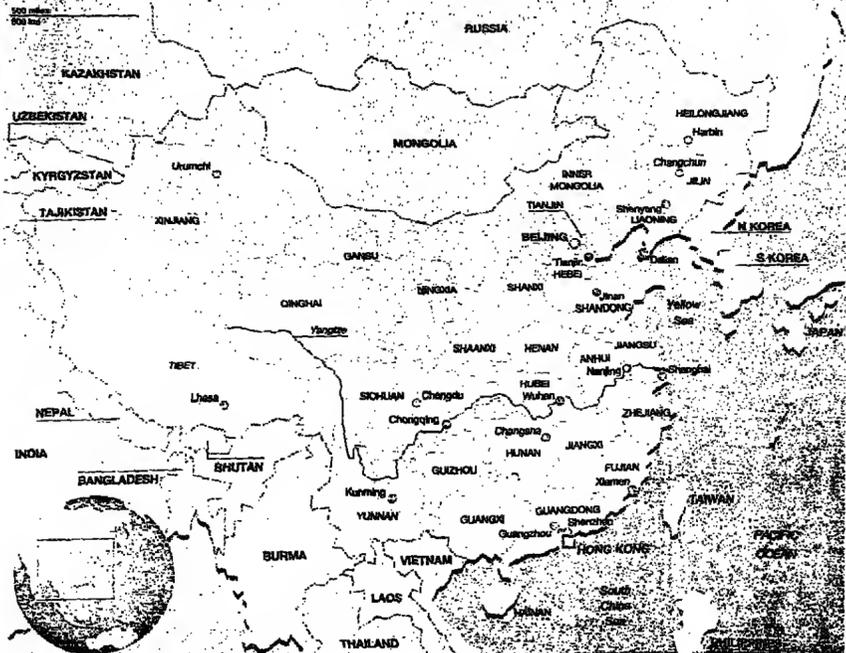
China's defence forces, which have been something of a "poor relation" during earlier stages of the country's economic transformation, seem likely to be given greater resources in the next period. China's conventional defence capabilities lag well behind its political and economic aspirations.

Tensions across the Taiwan Strait are certain to continue to be a feature of China's awkward dealings with the outside world, and the US in particular. Mr Li was not exaggerating when he said in his FT interview that concerns about Taiwan were at the "core" of problems with the US,

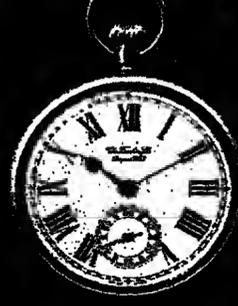
although he did sound a conciliatory note when he said that Sino-US relations were "somewhat improved" compared with a few months ago.

In turn, angst in Beijing over Taiwan feeds an incipient Chinese nationalism that might suit the leadership, especially since discredited Communist ideology hardly provides a beacon for a modernising state. China's rulers are not only groping for an appropriate economic model with "Chinese characteristics", but are also facing the difficult task of refashioning political institutions to match the process of economic liberalisation. In these efforts, there is no guarantee of success.

The Chinese Economy: Fighting Inflation, Deepening Reforms by the International Bank for Reconstruction and Development/World Bank, 1815 H Street, N.W. Washington, D.C., 20433, US.



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2 CHINA



The president (third from left) and army officers. The influence of the military has been enhanced at a time of delicate political transition

Politics by Tony Walker

President takes pragmatic line

Jiang Zemin is trying to keep all factions happy in the run-up to next year's congress

When the president, Mr Jiang Zemin, was photographed earlier this year wearing a Mao suit - a high-necked, military-style tunic favoured by earlier generations - his style of dress was widely interpreted as a sop to Communist party conservatism. Indeed, Mr Jiang's choice of Mao-era garb coincided with an unusually tough speech in which he assailed an erosion in social standards. "We must strictly ban the cultural trash poisoning the people and social atmosphere," he said. "We cannot sacrifice culture and ideology merely for a short period of economic development."

Calculation late last year of a document sponsored by a former party propaganda chief that warned that rapid economic reform was sowing the seeds of the party's destruction. Growth of the private economy at the expense of the public sector could ultimately destroy socialism's foundations and provide a platform for the emergence of a new political force hostile to communism, warned the document, entitled *Some Elements that Affect our National Security*. But Mr Jiang, who is sometimes described as head of the "wind" faction in China's leadership - a comment on his shifting views - was playing a different tune in May. On a visit to Shanghai he told local officials: "In the process of promoting reform of state enterprises, we must encourage exploration, liberate our thinking... boldly experiment and change forward."

These were hardly the sentiments of a diehard conservative and indicate that in some respects politics in China is not so different from it is in the west. Mr Jiang, with the 15th Communist party congress looming next year (party congresses are held every five years), is running for office and is seeking to "all things to all factions". This is typical of the ebb and flow of Chinese politics as Mr Deng Xiaoping, the country's ailing 91-year-old leader, fades slowly from the scene. China's "third generation" of leaders is constrained by a lingering interregnum, but in the interests of self-preservation they are obliged to take their factional politics seriously. In China, behind-the-scenes Exercises against Taiwan seem to have given the military a more prominent role

leadership manoeuvring tends to be a brutal game. The country is in for an interesting year politically, and Mr Jiang himself is certain to face tests of his leadership. One possible consequence of preparations for the congress is that the reform process will continue to slow. As a western ambassador observed: "With water from the congress back- ing up, people may be more reluctant to go out on a limb." There is much at stake. Not only will the congress further refine policy to carry China into the next millennium, but perhaps more importantly it will endorse a new slate of leaders, including younger cadres, to assume responsibility in the new era. Although Mr Jiang appears to be relatively secure, there may be moves in the next 12 months to whittle away some of his formal powers. It remains an anomaly of the system that he occupies China's three top positions - president of the state, general secretary of the party and chairman of the central military commission. There is talk of establishing a new party structure and creating two vice-chairman posts, one of which might go to Mr Li Peng, who is due to retire from the premiership in early 1998. Speculation has also focused on the possibility of making Mr Hu Jintao, a politburo member, secretary general of the party, a position occupied by Mr Deng Xiaoping in the 1980s. Mr Hu is the youngest member of the seven-man standing committee of the ruling politburo

Trade by John Ridding

Knocks before entry to the world club

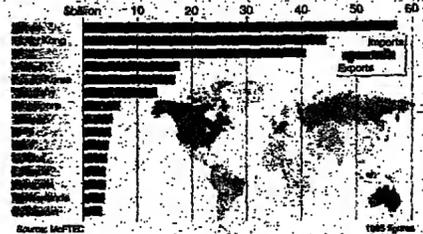
Despite recent accords, China and its economic partners face further hurdles in reconciling their interests

China and the US have pulled back from the brink of a trade war over intellectual property rights, striking a deal at the final hour. But the broader task of reconciling the commercial interests of Beijing and its economic partners still promises to be a protracted and problematic affair. Like Japan and some of the east Asian tigers before it, China has found that dynamic trade growth has been matched by an equally rapid escalation in trade tensions. Despite this month's agree-

"The resulting imbalance is spawning pressure in the US to take corrective action," says the US-China business council. The most recent figures could take some of the heat out of the issue. China recorded a trade deficit of US\$1.2bn in the first quarter, reflecting the reduction of export incentives, a rush to beat an April deadline for tax breaks on imports of capital equipment, real currency appreciation and, in China's view, restrictive measures in overseas markets. Mr Li Zhongshan, director general at the department of international trade and economic affairs, believes China may face a trade deficit this year. The hands of trade warriors may also be stayed by the role of foreign companies in China's trade machine. Foreign invested enterprises (FIEs)

This, it is claimed, should clear the way for WTO membership. China's partners respond that they still see insufficient progress in trade liberalisation measures and market access, and point to specific problems that have arisen over recent months. Beijing's announcement, for example, that it will assert a monopoly on the dissemination of financial news data has been strongly condemned by Sir Leon Brittan, vice president of the European Commission. Speaking after a recent visit to China, he described the move as "an extremely inappropriate initiative" that contravened the principles of the WTO. Despite the acrimony, trade officials hold out hope for progress over coming months. "There are some indications that the stand-off will be eased, particularly with progress on the IPR issue and MFN renewal," says one western diplomat. He sees potential for advances at the WTO trade talks in Geneva and, in particular, at the WTO ministerial meeting in Singapore at the end of the year. "That comes after the US presidential elections, so politics should be less prominent," he says. Prospects have also been brightened by progress on financial reform, notably last week's announcement of currency convertibility for leading current account transactions. Whatever the outcome, the trials of recent months have prompted China to reassess its trade patterns and to focus on trade diversification. "We have to reduce our dependence on the US," says Mr Li at the trade ministry, predicting a rise in intra-regional trade and increased opportunities for European companies. The recent award of an aircraft contract to Airbus, the European consortium, was seen as a blow to Boeing, the dominant supplier of China's aircraft needs, and a warning to the US about the costs of commercial disputes. "We will not use Europe as a weapon against the US," says one senior Chinese official. "But we cannot be dependent on a country where there is a risk of trade wars." There is rhetoric in these words. But there is also the reality of a bumpy ride before tensions can be defused.

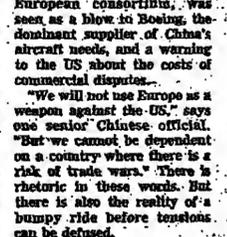
Import and export volume



ment on IPR, wrangling continues on the terms of the World Trade Organisation, the renewal of its most favoured trading nation status with the US, and on some specific commercial spats. Amid the discord, there is agreement on the stakes involved. Without China, says Mr Li Peng, the World Trade Organisation should rename itself the Regional Trade Organisation. The prime minister's point, that China is too important to be sidelined by the international trading community, is readily endorsed in the US and Europe. It is also backed by China's trade performance and prospects. Last year, exports totalled US\$149bn, a rise of more than 20 per cent. Overall trade is forecast to rise from about US\$280bn last year to US\$400bn by the year 2000, according to Mrs Wu Yi, minister of foreign trade and economic co-operation. Within the overall pattern there has been an accumulation of trade surpluses. As the World Bank says in a recent report, China experienced a swing of 5 percentage points in its current account balance in two years, from a deficit of 3 per cent of Gross Domestic Product in 1993 to a surplus of more than 2 per cent last year. Although distorted by the effect of re-exports through Hong Kong (see chart, right), the surplus with the US has risen particularly sharply.

have seen a steady rise in their role. According to the US-China business council, FIE exports totalled US\$36.6bn in the first nine months of last year, an increase of 45 per cent, while imports climbed 23 per cent to US\$49bn. For both sides, however, the issues go deeper than numbers on the trade account. "It is not simply an economic or a trade matter," says Mr Li Peng. "There are some countries in the world, out of their political needs, that are trying to block China's entry to the WTO." Chinese trade officials argue that the US stance has been partly dictated by presidential politics and partly by a perceived threat from the rise of China's economic power. They point to measures aimed at facilitating WTO entry, citing a 30 per cent reduction in average tariff rates in April.

Adjusted US trade flows and deficit with China



Foreign affairs by Peter Montagnon

The mark of the bogeyman

Recent events have damaged China's image. Can it now re-open a dialogue with the US?

Of all China's relations with the outside world, that with the US is regarded as the most important, both because the US is the world's single remaining superpower and because of its importance to China's trade. Thus the issue of Sino-US relations surpasses others, such as the recovery of Hong Kong - about which Chinese officials, in public at least, are quietly optimistic - or relations with Russia, strengthened by the recent visit by the president, Mr Boris Yeltsin. But the US relationship is also

China's most tortuous one. Chinese officials and foreign policy analysts admit it is in trouble on several fronts, but say this is a problem of US-making, resulting particularly from Washington's apparent sympathy for Taiwan. China, they believe, can do little to improve the situation, although they are less clear what they expect from the US in practice. Thus they find it hard to foresee any substantial improvement, at least before the US presidential election. It is not just the old questions of trade, human rights and Taiwan. A new element has entered the fray since the Taiwan Strait missile crisis in March: the sense, compounded by recent strengthening of the US-Japan security alliance, that the US is trying to make China into the region's bogey-

man, or even something worse. "We have no intention to take the place of the former Soviet Union and enter into a confrontation with the US," says Mr Chen Jian, assistant foreign minister. There are no serious conflicts in the Asia-Pacific region, adds Mr Ma Huijin of the China Institute for Strategic Studies, but differences exist that can be resolved by dialogue. Mr Ma believes such dialogue should proceed on a multilateral basis and include the Association of Southeast Asian Nations. The creation in 1993 of the Asean Regional Forum, linking world powers in dialogue with regional governments, was an important step in this direction. Into this benign approach, intrudes a harsher reality. China is still smarting over the

US decision to allow Taiwan's president, Mr Lee Teng-hui, to visit the US last year, a slight that, some say, may have been made worse by the fact that a similar invitation has never been extended to China's president, Mr Jiang Zemin. Part of the trouble may thus be a feeling in China that the importance it attaches to the relationship is simply not reciprocated in the US. The support the US president, Mr Bill Clinton, has given to renewal of China's most-favoured-nation trade status has helped, as has the defusing of the trade row over intellectual property rights. But recent strengthening of the Japan-US security alliance has revived fears that US policy is directed against China. "The joint security treaty was the product of the cold war," says Mr Chen. "With the end of the cold war, countries in the Asia-Pacific region are seeking to maintain peace and security through dialogue and co-operation. The decision by the US and Japan to strengthen their joint security system goes against this trend." Exchanges on both sides now often involve an emotional intensity that produces a knee-jerk rather than a rational response to each new situation. Though worried about Japan regarding military progress, for example, Chinese analysts have little sympathy for the notion that the stronger US/Japan alliance should enhance regional security by helping Japan resist any temptation to re-arm. Some Western diplomats say that China's heightened sensitivity on matters of sovereignty reflects a deliberate nationalism whipped up to mask the regime's own internal lack of self-confidence. Others add that the level of weaponry used in the Taiwan Strait missile tests marked a deliberate escalation of Chinese aggressiveness and that that necessitated a strong response from the US, regardless of the risk of a further deterioration in relations. China is also sending out mixed signals in the area of non-proliferation. While it now



Clinton: his conciliatory gestures can't eliminate Chinese fears

says it is prepared to drop its previous insistence on the right to continued peaceful nuclear testing in the wake of a comprehensive test-ban treaty, it is resisting arrangements for international inspection of its nuclear sites. And though it says it will stop testing after September, it carried one test in early June and plans another before then. One spark of hope amid the confusion is that the US and China maintain they want to improve relations. Mr Anthony Lake, Mr Clinton's security adviser, is to visit Beijing later this summer. Mr Clinton and Mr Warren Christopher, his secretary of state, have both made conciliatory speeches recently, and the signs are that the signals have been heard. "Sino-US relations are somewhat improved compared with several months ago," says Mr Li Peng, the Chinese prime minister. "It seems that people both within and without the US government have come to recognise the importance of China. That's why they advocate an engagement policy rather than an isolationist policy." Other officials welcomed Mr Christopher's suggestion of regular Sino-US summits and more frequent exchanges at all levels of government. That might help restart a proper dialogue, but it will almost certainly have to wait until after November's presidential election. What happens after that will depend heavily on who wins.



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Economy: by Peter Montagnon

Hard edge to 'soft landing' theory

Inflation is lower but export weaknesses and lack of revenue still blight performance

China has always been notorious for the violence of its economic cycles. This year, though, it is starting to look as though it may have achieved a soft landing from the inflationary boom that peaked in 1993. Inflation has fallen sharply, with the consumer price index rising 9.8 per cent in the year to March compared with 26.5 per cent for 1994. Retail price inflation, which has a smaller food component, was even lower at 7.7 per cent, but growth has held up reasonably well so far. Gross domestic product rose at an annual rate of 10.2 per cent in the first quarter of this year compared with 11.2 per cent in the same period of 1995.

The good performance on prices allowed the central bank to announce a gentle relaxation of monetary policy in early May, with a cut of 0.98 percentage points in the one-year deposit rate.

Although these developments bear the hallmarks of a soft-landing, the jury is still out. Some economists fear that the People's Bank of China - whose governor Mr Dai Xianglong, refers to the interest rate cut as a "tentative, timely adjustment" - may have held

on to its tight money policy too long. Mr Joe Zhang, economist at W. I. Carr in Hong Kong, argues that the central bank has stifled investment through its curbs on credit.

According to Mr Zhang, real growth in investment spending, currently running at around 5 per cent, is insufficient to replace worn-out assets so the capital stock of the country is shrinking. This, he says, will become clear as the economy continues to slow, and the authorities may then have to err on the generous side in rekindling activity. That would bring a risk of bottlenecks and capacity shortages, so inflation might quickly take off again.

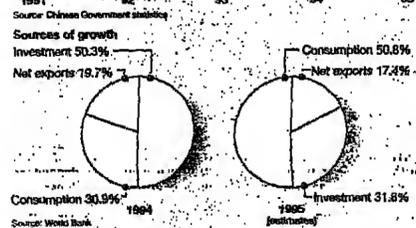
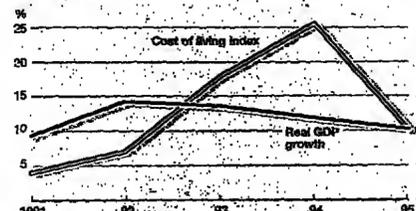
Such views are echoed by other international economists. Some argue that the high level of inventories, estimated at 5 per cent of gross domestic product, will also be a drag on growth. But there is by no means universal agreement. Calling the turning point in any large economy is a notoriously hazardous task. In China it is made all the harder by the difficulty of judging the real policy stance.

Thus the optimistic school believes that the central bank, which remains publicly committed to a moderately tight money policy in the medium term, has in fact been quietly easing credit conditions for some time. Forward looking indicators, such as new loan growth - which was 14.6 per



The price is now right. A dumpling seller in Shanghai: the cost of living has fallen

GDP growth



cent in the first quarter - suggest activity should start picking up again soon, says Mr Jim Baker, Asia economist at CS First Boston in Hong Kong.

Mr Rajiv Lal of Morgan Stanley says that, with retail sales still growing at around 15 per cent, China should have no real difficulty meeting its growth target for this year of 8 to 9 per cent, even at current depressed levels of investment. Inflation might pick up somewhat, though, because China will this year have to raise grain prices again to boost rural incomes and encourage production.

As for the central bank, the governor Mr Dai says it decided to lower interest rates because price pressures had been declining for several months amid weak demand for investment, consumption and exports. If the price level goes on decreasing, the bank might consider easing credit again later in the year by making additional loans available to the farm sector and for cheap housing. "But," says Mr Dai, "overall we're not going to change our monetary stance."

Quite what that means in practice remains unclear.

Though the central bank is firm in its commitment to the fight against inflation, it must also confront some political pressures. Next year will be a particularly important one for China, not only because of the return of Hong Kong to mainland control, but also because of the party congress later in the year.

It is a fair bet that the government will want the economy to perform well through this period, but it will be some time before any definitive judgment can be made as to how far the authorities have managed to fine-tune the cycle.

Besides, there are some other strains with which China still has to grapple. A striking feature of this year's economic performance has been the weakness of exports, which fell by 7.7 per cent in the first four months of this year.

An important reason for this was tax. The government cut VAT rebates to exporters from 17 to 9 per cent and the finance ministry then allowed delays to build up in the payment of the rebates. Arrears total ¥55bn, and officials say it may take two years to catch up, if this were the only prob-

lem affecting exports, its impact might be expected to diminish over time, but there are also fears that a rise in the real exchange rate, of some 12 per cent last year, may have been damaging.

Mr Dai says the exchange rate is determined by the market and reflects capital flows as well as trade. He says he expects it to remain stable. Mr Shi Guangsheng, vice minister of foreign trade, however, admits that the exchange rate level is causing difficulty for exporters, though he says it is not a key factor in export weakness.

World Bank officials say recent export performance has been worse among domestic manufacturers than joint ventures, which simply process imported inputs. This could be further evidence of the impact of a strong real exchange rate.

Partly because of this, the trade surplus is likely to shrink sharply this year from last year's \$16.5bn. According

to Consensus Economics, which calculates the average forecast from leading private sector economists in Asia, the current market expectation is for it to shrink to \$7.5bn, but many economists feel estimates could be adjusted downwards, and some Chinese economists think trade will be no more than balanced.

China's current accounts, which last year were roughly in balance, may be less strong than at first sight appears. Morgan Stanley's Mr Lal points to the large \$16.5bn error and omission line in the balance of payments statistics, some of which he says should be applied to the services account. In particular, it appears that Hong Kong investors have been remitting large returns on investments in China, a factor that may also be supporting the colony's economy.

At a more fundamental level, concern continues about China's poor level of tax collec-

KEY FACTS

Area	9,561,000 sq km	
Population	1.2bn	
Head of state	Jiang Zemin	
Currency	Yuan/Renminbi	
Average exchange rate	1995 \$1=Rmb 8.3499 1996 \$1=Rmb 8.3263	
	1995	1996*
Total GDP (\$bn)	865.2	840.4
Real GDP growth (%)	10.2	8.9
GDP per capita (\$)	574	683
Components of GDP (%)		
Private consumption	46.2	N/A
Total investment	34.7	N/A
Government consumption	12.8	N/A
Exports	21.7	N/A
Imports	-19.2	N/A
Annual change in:		
Consumer prices (%)	14.8	10.0
Wages (%)	15.0	13.0
Ind. production (%)	13.4	13.5
Agriculture (%)	4.5	4.5
Services (%)	10.0	9.0
Reserves minus gold (\$bn)	75.4	N/A
Stock mkt index (% change)	-14.29	38.43
Total foreign debt (\$ bn)	98.2	101.6
Foreign debt-service ratio (%)	9.7	9.9
Current account balance (\$bn)	15.2	6.9
Merchandise exports (\$bn)	125.7	135.7
Merchandise imports (\$bn)	-110.6	-128.8
Trade balance (\$bn)	15.1	7.0
Main trading partners (1995, %)	Exports	Imports
Hong Kong	24.1	6.4
Japan	18.9	22.0
US	16.1	12.2
South Korea	4.7	7.6
Germany	3.9	6.1
Singapore	2.3	2.6
Taiwan	2.1	11.2

(1) Year to date. (2) EU estimates unless otherwise stated. (3) Urban workers. (4) End of year. (5) Shanghai composite. (6) Share of world trade. Source: Economist Intelligence Unit, DataStream

INTERVIEW Li Peng, premier

Market plays important role

The prime minister speaks about the subjects that dominate Chinese thought and policy

Mr Li Peng, China's premier, spoke to the Financial Times in Beijing recently. What follows are his observations on key issues facing the country.



Li Peng: 'western-style democracy is not possible in China'

Economic reform
"We think that the market plays a fundamental role in the allocation of resources. In China, a socialist country, this role can only be brought into full play under the government's macro-regulation and control. The Chinese government will resort to multiple means to exercise macro-control over the economy, such as through the plan, through fiscal policies, and through monetary policy."

Economic growth and monetary policy
"We practise a moderately tight monetary policy and this will remain unchanged. However, we will somewhat ease controls over working capital for the production of marketable goods."

Entry to the World Trade Organisation
"China maintains that if it is not able to join the WTO, that is of course a loss for it, but if

the WTO rejects China, then that will also be a loss for the WTO. However, I cannot see the prospect of China's trade with other countries being affected if it is not a member of the WTO because China itself is a huge market. That is the reality. When I was in France, we signed the contract with Airbus to buy 33 Airbus planes; we did not do it through the WTO."

Preferential tax policies for special economic zones
"Our basic policy towards the state-owned enterprises in China remains unchanged. Corporate income tax for the foreign-invested enterprises is 15 per cent. I think this is fairly low compared with other countries in the world."

Foreign investment
"We want more investment in

infrastructure; we also welcome co-operation in the technical transformation of small and medium-sized enterprises in light industries. In the services sector we are also ready to co-operate. But in the area of banks and insurance companies we are not ready to open on a large scale."

Relations with the US
"The United States has tried various means to interfere in China's internal affairs. The core issue in Sino-US relations is the question of Taiwan. If the United States can observe in deed not just in word the three Sino-US joint communiqués then it will be possible to further improve and develop relations between the two countries."

Participation in the Three Gorges hydro-power project
"China's biggest project is the Three Gorges project. But the EximBank of the US on the instruction of its government has said it will not provide loans to American companies that want to bid on the project. This policy of the United States actually kills the opportunities of American companies to participate. But it will lead to no loss to China because it can obtain the same technology from the Europeans or from the Russians."

Relations with Europe
"The Europeans have more favourable terms, more lenient terms. They do not attach political strings to

co-operation with China - unlike the Americans who arbitrarily resort to the threat of sanctions or the use of sanctions. This is the reason that has prompted China to enter into close co-operation with the Europeans. If the Europeans adopt more co-operation with China - not just in economic areas but also in political and other areas - then I believe they will get more orders from China."

Policy towards Taiwan
"So long as the Taiwan authorities can abandon pursuit of 'two Chinas' and can return to the position of 'one China' not just in word, but also in deed, then cross-strait relations will be improved and strengthened in a peaceful manner."

Resumption of sovereignty over Hong Kong
"There are less than 400 days before Hong Kong's sovereignty will return to China. The die is cast. This also accords with the aspirations of the people. The basic policy of China is to ensure a stable transition and smooth transfer of government in Hong Kong. I can say that for all Hong Kong people - for each and every Hong Kong person - so long as he or she loves Hong Kong, loves the motherland, abides by the Basic Law, he or she can have a role to play in the future of Hong Kong."

Political reform
"Apart from our economic reform we will continue to promote our political reform. The purpose of political restructuring is to make the government more efficient and to enable the people to play a bigger role to serve as masters of the state so that the capacities for developing the country can be mobilised. Some people in the west believe that along with economic development China will evolve more into a western democracy, but we think it is not possible here."

Interview conducted by Tony Walker, Peter Montagnon and John Riddick

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<p>Hong Kong Placing and Placing of Shares China Resources (Holdings) Limited Feb. 1996</p> <p>US\$419,146,000 Sole Underwriter and Placing Agent</p>	<p>China Initial Public Offering of Shares Nanning Fuchen Electronics Company Limited Apr. 1996</p> <p>US\$66,085,000 Global Co-ordinator Sponsor and Lead Manager</p>	<p>Hong Kong Private Placement of Shares Crawling King Holdings Limited Feb. 1996</p> <p>US\$679,487,000 Lead Underwriter and Placing Agent</p>

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4 CHINA

Foreign investments by John Fiddling

FDI flood meets barriers

Tax reform and policy changes are setting new conditions for overseas investors

The flood of foreign investment that has buoyed China's economic expansion over recent years is now at a watershed. A more selective stance from Beijing, combined with fiscal and tariff reforms, is changing the conditions for direct investment and the destination of capital inflows.

"We are still encouraging foreign investment, but we are trying to divert it to bottlenecks and high-technology areas," says Mr Li Zongzhou, director general of the department of international trade and economic affairs at China's foreign trade ministry. Mr Li cites infrastructure, energy and advanced manufacturing among the priority areas. Such a shift raises challenges not only for investors but also for the Chinese authorities, which must seek to develop new means of financing and guarantees for projects and try to resolve concerns about the investment environment. It may also herald a trend of fewer, bigger, projects and a cooling in the rate of investment growth. Recently, the rate has been frantic. Statistics show that in the first quarter of the year,



foreign investment contracts rose by 87 per cent to US\$37.6bn, underlining China's position as the dominant recipient of direct investment among developing countries. This came on top of existing commitments of more than US\$390bn and actual investment of more than US\$135bn by the end of last year. Behind the first quarter surge, however, lay some special factors. In particular, investors were rushing to beat the April 1 elimination of tax and tariff breaks on imports of capital equipment. A longer-term picture (see chart above) shows a fall in the number of investment contracts alongside a continued rise in the value of utilised investment. The elimination of these import incentives is part of the broader shift away from all-out investment promotion policies. A parallel shift is the reduced interest in labour-intensive and small-scale projects that dominated the early years of China's economic liberalisation. "They are not interested by \$10m projects any more," Mr Alfred Shum, executive partner for China at the accountants Ernst & Young, says. There are plenty of big projects on the table, many in the power and infrastructure sector targeted by the Chinese authorities. But the bigger the project, the bigger the risk, and many investors remain to be reassured about the terms and conditions for committing their funds. At the top of their list of anxieties are rates of return, management controls, guarantees for loans and the ability to transfer revenue streams into

foreign currency. Mr Li at the ministry of trade and foreign economic co-operation is confident that solutions will be found. Of particular significance, according to Chinese officials and their foreign investment counterparts, is the development of a Build Operate Transfer power plant project in the southwestern province of Guizhou. The project, which is now in the bidding stage, is touted as a potential model for future big projects and a yardstick for financing and rates of return. "The terms of such big projects are not the only concerns of investors. The US-China business council cites 'opaque and unpredictable' methods used to enact regulatory changes as a problem in business planning. The scaling back of investment incentives, it adds, is likely to dampen

investor enthusiasm and make marginal projects unfeasible. At Jerra, the Japanese trade and investment promotion agency, there are misgivings about the pace of change. "We understand their intention to move to high technology but they are very much in a hurry," says one official. He believes the changes in tax and tariff incentives will represent "a big handicap" to foreign investors. An additional worry is the growing influence of domestic companies in protecting their markets. "A lot of the state-owned enterprises are bleeding red ink and they have pushed for limits on foreign presence," says one businessman. Profitable state enterprises have also exerted influence. Foreign insurance companies, for instance, have seen glacial movement in market liberalisation, partly because of pressure from state insurers seeking to limit inroads into their business. Many, however, see positive steps, citing accelerated moves towards currency convertibility which will facilitate the repatriation of profits. And it is a rare voice in the business community that claims the difficulties of access or operation outweigh the potential. "It remains one of the few markets with huge growth prospects, so there is no lack of interest," says Mr Shum of Ernst & Young.

Foreign direct investment into China and Regions (US\$10,000)

Year	China	Guangdong province	% share	Shenzhen City	% share	Shenzhen S.E.Z.	% share
1987	231,253	60,289	26	27,279	12	25,488	11
1988	319,368	95,796	30	28,716	9	27,144	8
1989	339,257	116,644	34	29,292	9	34,920	10
1990	348,711	148,000	42	39,584	11	39,487	11
1991	436,036	182,286	42	39,875	9	32,186	7
1992	1,100,751	355,150	32	44,878	4	67,221	6
1993	2,751,495	748,804	27	98,900	4	62,070	2
1994	3,376,850	938,708	28	125,046	4	62,070	2
1995	3,773,800	1,018,028	27	130,989	3	N/A	N/A

Foreign direct investment into China by country (US\$10,000)

Country	1988	1989	1990	1991	1992	1993	1994	1995
HK and Macau	209,520	207,759	181,342	248,687	770,907	1,786,125	2,017,481	2,048,900
Hong Kong	206,760	206,690	188,000	240,825	750,707	1,727,475	1,988,544	2,006,000
Taiwan	2,244	15,479	22,240	48,641	105,050	313,899	338,104	300,400
US	23,596	28,427	45,589	32,320	51,105	206,312	249,080	306,200
Japan	61,453	35,633	30,338	53,250	70,983	132,410	207,529	310,800
Singapore	2,782	8,414	5,043	8,821	12,231	49,004	117,961	185,100
Korea	402	1,267	3,980	11,948	37,381	72,283	104,300	128,800
Thailand	610	1,288	672	1,982	8,303	23,318	N/A	28,800
UK	3,418	2,848	1,333	3,539	3,833	22,051	68,894	91,400
France	2,257	491	2,103	928	4,483	14,141	18,282	28,700
Canada	902	1,695	804	1,078	5,824	13,889	21,805	25,700
Others	22,878	36,871	27,967	38,390	58,074	155,206	263,518	340,200
Total	319,368	339,257	348,711	436,634	1,100,751	2,751,495	3,376,850	3,773,800

Over recent months, this interest has been focused increasingly on new markets within China, in terms of both products and location.

Mr Victor Chu, chairman of the Hong Kong-based First Eastern Investment Group, argues that the consumer sector is poised for sustained and robust expansion as China's developing economy produces a broadening middle class. His group recently forged an agreement with Sinochem of China and several international chemicals groups with an eye on the plastics and by-products required for consumer products. Golden of Hong Kong has seen rapid profits growth on the back of rising expenditure on its garments, ties and related consumer products. At the same time, investor focus has shifted somewhat from the traditional magnet areas. Guangdong remains the largest recipient of foreign investment, supported by funds from Hong Kong, the largest source and the main conduit of investment into China. But the share of funds flowing to the southern province has fallen from more than

40 per cent in 1991 to less than 30 per cent last year. Stronger growth has been seen in Shanghai, the Yangtze river delta, eastern coastal provinces such as Shandong and industrial areas around Beijing.

"By 2005, I believe that Hong Kong investors' attention will have shifted from Guangdong and the Pearl River Delta to Shanghai and the Yangtze Delta," says Mr Vincent Lo, chairman of the Shui On property and construction group. Mr Lo cites rising costs in Guangdong and Shanghai's traditional importance as a business base as the motors for change. China's leaders would like investment to flow further afield, helping to develop the western and inland regions and to reduce disparities with the coast. So far, investors have been cautious, wary of the lack of infrastructure and logistical limitations. "There are opportunities, but it is certainly more difficult," says one French engineering executive. Given Beijing's more rigorous stance, it is an assessment that could be applied to China as a whole.

Banking by Tony Walker

Bad debts delay process of reform

Although making good progress, the sector is stymied by loans to the state enterprises

Mr Dai Xianglong, governor of the People's Bank of China, the central bank, says he is satisfied with progress towards reforming the country's antiquated financial system, but acknowledges there is still a long way to go. Supervision of commercial banks is being strengthened, new banks are gradually being established to compete with existing institutions, open market operations are being introduced on an experimental basis and efforts are being made to deal with the non-performing loans of state enterprises.

"In 1994 we made a very important first step when we separated policy loans from commercial transactions by establishing banks exclusively devoted to policy lending," says Mr Dai. "The second step was the promulgation of a commercial banking law which forbids any individual from interfering with bank lending."

The latter measure was aimed at powerful local officials who bullied banks into lending to unprofitable enterprises controlled by political cronies. Much of the bad debt problem is attributable to a combination of this practice and pressures on local officials to preserve jobs. But although Mr Dai is sanguine about progress so far, the realities of reforming China's financial sector are somewhat starker. A vast gulf separates the country's financial system from those of most of its trading partners, as China makes the difficult transition from a rigid, centrally planned economy to a market-based system. Open market operations are in their infancy and Chinese banks lag well behind the minimum standards required of international institutions under Bank for International

Settlements rules. Capital adequacy ratios are far from meeting BIS requirements, and prudential practices do not correspond with international norms, although the Bank of China has begun to fall into line. At the heart of China's financial sector difficulties are the bad debts of state enterprises. Mr Dai says that 20 per cent of total advances from China's "big four" specialised banks are "problem" loans, with 2 per cent of them irrecoverable. Because China does not apply international standards to its debt classification, it is difficult to assess the extent of the problem. Independent estimates put the stock of doubtful or non-performing loans at 20-30 per cent of the loans portfolio of China's big state-owned banks. This could take years to unravel. At some point the state will

have to consider writing off a large portion of these debts and at the same time engage in a recapitalisation of the banks. China has set the year 2000 as a target for the "commercialisation" of its banks. The timetable will not prove easy, given the dimensions of the debt problem and the fact that China's specialised banks - Industrial and Commercial Bank, Agricultural Bank, Construction Bank and Bank of China - are huge and unwieldy institutions.

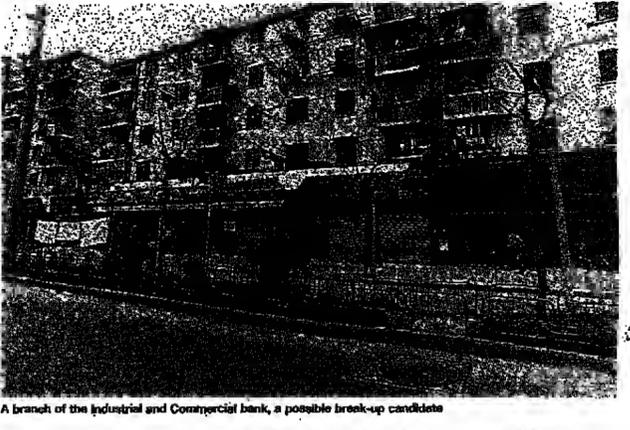
Between them, they account for 80 per cent of banking business. Industrial and Commercial Bank and Agricultural Bank each have about 500,000 employees and 50,000 branches and outlets. China will at some point have to consider breaking up these banking dinosaurs.

"An immense process of education and learning has to take place," says a representative in Beijing of the International Monetary Fund. "They need to continue expanding open market operations and freeing interest rates. Financial sector reforms will be constrained without further interest rate liberalisation." The IMF representative says that among the most critical measures to underpin the success of open market operations is an acceleration of accounting reform, including the completion of a book entry system for the trading of government securities. There is also a need for greater transparency in the application of government regulations. Standardisation of settlement rules for the infant foreign exchange market is also a priority. China launched a pilot scheme earlier this year in four locations - Shanghai, Dalian, Jiangsu province and Shenzhen - and there are plans to extend this nationally by the end of the year, according to Mr Dai.

All this is aimed at preparing the ground for China's move towards currency convertibility and the current account in time for an IMF/World Bank meeting in Hong Kong in 1997. Mr Dai indicates that China would like to be in compliance with the IMF's Article 8 on currency convertibility by the end of this year so as to be in good time for the joint session. Compliance would also help it to meet its obligations under the

trade in services requirements of the World Trade Organisation. Although its task is incomplete, China has worked hard at reform since it began opening to the outside world in 1978. As a recent World Bank study concludes: "Considerable progress has already been made in setting the foundation

for a modern financial system. China's financial system today bears little resemblance to its predecessor before reforms began in 1978. "The monobank system of the pre-1978 era has metamorphosed into a diverse set of institutions akin to the financial systems of middle-income market economies."



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Solving the capital conundrum

The authorities must develop the markets without encouraging speculative trading

China has long had difficulty ensuring that its financial market development can keep pace with its broader economic growth and its insatiable demand for capital to develop the country's infrastructure. Hitherto, much of the focus has been on the nascent stock markets in Shanghai and Shenzhen, but now the country is slowly starting to develop debt and money markets in a way that might eventually make them more efficient and reduce its continuing reliance on foreign borrowing.

In separate developments this year, it has ended the interest rate cap on trading in its national interbank money market, launched limited open market operations by its central bank in the treasury bill market, and again started to issue longer term government bonds to the public. Western bankers say the immediate impact of these measures is limited because much of China's financial system still relies on controlled allocation of credit at regulated rates of interest. Compared with a modern market economy, this leads to some extraordinary anomalies, such as the fact that rates on government bonds, a benchmark low in most countries, are higher than medium-term bank deposits. The role of the interbank money market and treasury bill market is marginal at present, but, taken together, this year's measures mark a stride forward in putting in place the outline of a modern system that will eventually allow the market to set interest rates

How China's budget deficit is financed (Yn bn)

	1993	1994	1995*	1996*
Foreign loans	32.9	15.2	1.4	N/A
Treasury bonds	38.5	102.3	142.0	185.3
Central Bank credit	20.5	0	0	0
Total	89.9	117.5	153.8	185.3

Total foreign debt outstanding (\$bn)

	1993	1994	1995
Total	84.2	98.4	107
Multilateral	10.7	13.6	15.7
Bilateral	13.7	15.4	N/A
Commercial	59.8	69.4	N/A

and correct such anomalies. Economists expect China to issue about Yn195bn in domestic debt securities this year, up more than Yn43bn over last year. In recent years, the government has not issued bonds with a maturity longer than three years. This means a con-

ditional bunching of repayment deadlines and a maturity profile that is too short, says Mr Liu Zhongli, finance minister. The government thus decided this year to try longer-dated five- and 10-year issues.

But an issue of five-year bonds in May sold slowly despite a one percentage point premium over equivalent bank deposits. Bankers say the lack of interest reflects the withdrawal in April of inflation-linked supplementary interest payments on government debt

and bank deposits, as well as the lower absolute rate of interest since monetary policy was eased at the start of May. Against that background, the launch of a 10-year issue totaling Yn12bn in June looks bold, though it is too early to say how it will be received.

Western bankers say one problem is that the market for debt securities remains dominated by retail investors. China still does not have an institutional fund management, pension and insurance industry to help create a liquid secondary market in debt securities and market-determined benchmark interest rates. Some bankers also say that the continued closure of the futures market in government bonds is a handicap for professional investors trying to manage risk. There is no chance of this market re-opening in 1996, says Mr Zhou Dejun, chairman of the Securities Regulatory Commission. China closed that market after two large securities companies ran up large losses in speculative trading last year. The conundrum for the authorities is to find a way of providing institutional investors with the range of products they

require to develop their business without being continually blown off course by private speculation in thin experimental markets.

Mr Joe Zhang, economist at W. I. Carr in Hong Kong, says China "desperately needs" a deep domestic capital market to finance its infrastructure needs but he reckons it will take at least five years to create one. Meanwhile, China must rely on foreign borrowing to supplement the heavy inflows of foreign direct investment capital it has been enjoying in recent years. According to the People's Bank of China's foreign debt rose to \$107bn last year from \$88.4bn at the end of 1994. However, although the absolute total is the largest in Asia, the country's debt service ratio is low at only around 7.25 per cent, which is bettered among Asian borrowers only by Malaysia. Mr Dai Xianglong, governor of the People's Bank of China, adds that the debt total has to be compared with \$140bn of disbursed foreign direct investment. Only a small proportion of the debt is short term, while China has only about \$6bn in foreign portfolio investment outstanding so it does not rely on volatile short-term flows. Moreover, official foreign exchange reserves and currency holdings abroad by banks add up to \$122bn, which is more than the foreign debt outstanding, he adds. Foreign bankers say that China is careful in controlling the flow of new borrowing in the international capital markets. The Ministry of Finance has been active in the international bond markets this year, even raising one issue of 100-year bonds in New York in March. But most of the borrowing emphasis is on infrastructure-related project finance. China's main concern in such deals is to limit central government financial guarantees, forcing banks to take more of the risk directly. Some tough battles are likely to be fought in this area, but, with China seen as a desirable borrower, banks that want to lead may have to make concessions, especially since leading Western export credit agencies are showing signs of relaxing their hitherto strict insistence on sovereign guarantees.

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Mr Gan Silyu, vice chairman of the state planning commission, could not be accessed of understanding China's challenges in modernising its infrastructure to underpin improving living standards for a population that will reach 1.3bn by 2000 - the end of the current ninth five-year plan.

INVESTMENT IN INFRASTRUCTURE: by Tony Walker

The door to 'hard' credit creaks open

The government remains ambivalent about funding projects via foreign capital markets

include further accelerated development of all facets of infrastructure, including roads, railways, ports, telecommunications, airports, the power sector and water conservancy. Basic industries such as petrochemicals also figure prominently in the government's plans.

alone will amount to around \$300bn over the next five years. Requirements for foreign funds should reach about \$10bn annually, or approximately 15 per cent of the total.

China will be obliged to make greater use of commercial borrowing. It also plans to invite foreign investors more directly in infrastructure development through joint ventures and equity arrangements, including Build Operate Transfer schemes.

much more stable market than manufacturing," he says. But Western officials think this may be a more optimistic view of the attractions of infrastructure investment than is justified.

Table: Expenditure in 9th FYP. Columns: Sector, \$bn. Rows: Power (60-100), Telecommunications (60), Railways (40-45), etc.

Plugging into Powerful Opportunities, that China's task of pulling in around \$10bn in foreign capital every year "will be considerable".

even more visible. In March 1995, in the wake of the Mexican peso crisis, China announced that borrowing from international commercial banks would be severely curtailed.

Road and rail transport: by Peter Montagnon

Long journey to efficiency

Upgrading road and rail transport is a crucial challenge for China. Better communications are necessary not only to boost economic efficiency but also to open up the poorer provinces of China's hinterland and bring them to catch up in terms of living standards.



Trucks on route to Burma... around \$35bn will be spent on new roads in the current FYP.

Nearly a quarter of the \$280bn to \$370bn in infrastructure spending projected under the ninth five-year plan will be invested in road and rail, with a further \$10bn destined for port development, according to Western diplomatic estimates.

Holdings, the Hong Kong company that constructed it. Among the problems were cost overruns, delays in construction, difficulty in securing local construction permits, and a shortfall of toll revenues after the road opened.

operating track total to 26,000km. Total investment plans amount to some Yn300bn, Mr Han says. Part of the money will come from a small surcharge on freight transport, which the ministry wants to increase. Part will come from bank loans and part from loans from the World Bank, Asian Development Bank and Japan's OECF development agency.

China must also invest heavily in maintaining and repairing its existing open-road network. This means that while estimates for spending on new roads range around the \$5bn to \$6.6bn mark, the ministry's total road budget is scheduled to be around \$6.6bn.

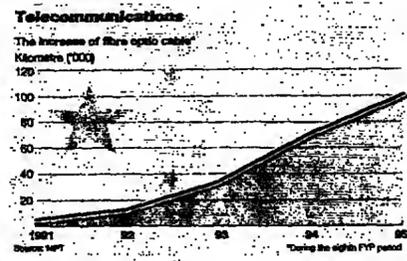
By contrast, Mr Han Zhubin, minister of railways, is less coy about using real estate to lure outside investors into his industry. In part, this reflects the fact that, with large operating as well as capital cost, railways are a much less attractive proposition.

But a more fruitful use of foreign capital has been in railway equipment manufacture. China already has joint ventures with ABB and SKF and is discussing a venture with Bombardier of Canada.

Telecommunications: by John Ridding

Engaged in expansion

Cellers to the southern Chinese city of Guangzhou have had to add another digit to their dialling this month. The change, which follows a similar move in Beijing and Shanghai, is just one sign of the expansion that has fasted China's world's fastest growing telecoms market.



China's five-year plan for the period to 2000 aims to add more than 64m new subscribers to the present total of about 41m, excluding mobile customers. Exchange capacity will double to 170m lines.

which are equivalent to about RMB3,000 per unit and which can be used only for the construction of networks. Given the ministry's plans for new subscribers, about RMB300bn should be raised each year.

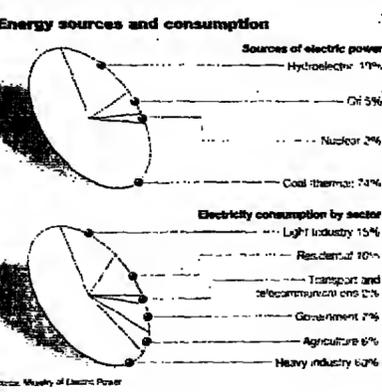
Still not officially approved, Mr Han adds, is the construction of China's first high-speed line from Beijing to Shanghai. According to a World Bank study, the 1,316km line would cut the journey time from 17 to seven hours with trains operating at a speed of 250kph.

Gaining a presence in the market is equally difficult for foreign operators. Although a few have ongoing projects, notably Hongkong Telecom and Singapore Telecom, progress is slow and the scope of involvement is restricted.

liberalisation appears remote. Domestic competition is closer to hand. But here, too, the process is slow. Value-added services, such as paging, have been liberalised, prompting a flurry of new providers. But for basic telecoms services, development has been less striking.

Power: by Tony Walker

Transmission impossible?



Mr Shi Dazhen, minister of electric power, has one of the tougher jobs among China's infrastructure ministers. With the economy continuing to gallop along at an average growth rate of about 11 per cent, his task is to match the dynamic pace of development with new power generating capacity.

capacity per head it would need 2.6mMW of generating capacity, or five to six times its target for 2010 of 500,000-550,000MW.

Advertisement for Shanghai Light Industrial International (Group) Corporation Limited, listing various products like Enamel & Aluminum ware, Stainless Steel Cookware, etc.

China plans to add 15,000MW a year to the present total of around 200,000MW, reaching 300,000MW by 2000. This would involve tripling capacity between 1987/2000, no small achievement in itself.

Large advertisement for Yale Security Products, Williams Holdings PLC, and Schrodgers (Shanghai) Financial Advisory Co., Ltd.

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6 CHINA

Professional and business services: by Richard Tomlinson

Tough market for 'intangibles'

Despite growing demand for their advice, consultants still meet cultural barriers

In August 1989, just two months after the Tiananmen Square crackdown, Mr Peter Batey asked permission from the Chinese authorities to start a consultancy firm in Beijing. "They were astounded," he recalls. "At that time, they were used to foreigners asking to close down their businesses, not open new ones."

Seven years later, Mr Batey feels rather less lonely. The British Chamber of Commerce in Beijing, which he heads, lists 20 member companies, offering legal, accounting and business consultancy services. They include specialised firms with names such as East West Intellectual Property, as well as giants such as Price Waterhouse and Clifford Chance.

It is the same story at the American Chamber of Commerce, whose membership covers all the leading companies in the professional sector. According to Mr Batey, the latest US firms to pile into China

are investment and market strategy consultants.

Before such companies can provide expert advice on China, they need to take their own crash course in mainland practices. "This isn't a society where you can rely entirely on the rule of law," says Mr Batey, with some understatement. "The best way to protect yourself is to build up a web of relations with the right people in government."

The gulf between rules and reality is especially troubling for overseas law firms in China. "I would argue that China has moved from having too little law and an uncertain situation to too much law and the same uncertainty," says Mr Edward Epstein, who runs the China group at Clifford Chance.

As an example, Mr Epstein cites the recent decision by Beijing to remove certain tax exemptions on the import of raw material and equipment by foreign investors. Clifford Chance had "an incredible rush" completing the papers for joint venture deals before the April 1 deadline, he says.

"We were in the middle of

this process when the ministry of foreign trade issued an internal notice saying it would re-examine every one of those deals and revoke local approval if the contract were deemed 'improper'. It did not matter that under another regulation joint ventures with a start-up capital of less than \$30m were supposed only to need local approval."

For international law firms such as Clifford Chance, Baker and McKenzie and Gide, Loyrette, Mouel, getting a foothold in China is hard. Since 1992, China's ministry of justice has authorised 57 overseas practices to open offices on the mainland, but they are not allowed to handle domestic business, or form joint ventures with local partners.

The situation for accountancy firms is less restrictive. They can set up joint ventures, and although most of their China business still comes from overseas clients, domestic demand for their services is growing.

At Price Waterhouse, the number of employees resident in China has swollen from fewer than 10 in 1992 to more than 800 today. Of these, more

than 100 are expatriates, mostly overseas Chinese from Malaysia, Singapore, Hong Kong and Taiwan.

"I would think that in the next five years, assuming continuing economic growth in China, we would still be in the investment phase," says Mr Richard Gladhill, a senior member of PW's corporate finance team in London who visits China regularly. "But we would like the current investments to begin bearing fruit."

As proof that the prospects are good, Mr Gladhill points to PW's impressive multinational client list in China, the listings service it performs for domestic giants such as CITIC Pacific, and its work with the World Bank and the People's Bank of China on drafting new financial rules.

The problem for PW, like its competitors, is that although its China business is expanding, so are its overheads. Recently, overall stewardship of Price Waterhouse Dahna, PW's joint venture vehicle in China, was switched from the Hong Kong partnership to the international parent company. Mr Patrick Paul, the senior Hong Kong partner, was

reported as saying: "It was difficult for the international Big Six firms to provide a subsidy of several millions of dollars without taking control."

The main burden in China, not only for accountancy firms but throughout the professional sector, is the cost of maintaining a large expatriate workforce. "Localisation" is the buzzword, meaning training local employees to fill senior positions, but this is less easy than it sounds.

"We find that after about three years, our Chinese staff hit a brick wall and just stop getting better," says one western executive at a professional company in Beijing. He blames the Chinese education system, which he says is better at turning out first-class scientists than graduates who can perform complex business tasks.

A similar culture gap may also inhibit the expansion of domestic demand for international business services. In spite of the inroads made by the accountancy firms, "The Chinese are only just beginning to wake up to the idea of consulting fees," says Mr Batey. "They don't like the idea of paying for intangibles."



Shadows over the exchange? There are fears that government interference could grow

Securities regulation: by Sophie Roell

The watchdogs bark

The move towards a system of tighter supervision could raise as many fears as it calms

The China Securities Regulatory Commission (CSRC) appears to be making slow but steady progress towards centralising control of China's disparate securities markets.

This year, the agency succeeded in wresting control over the B-share market - which trades foreign currency denominated shares reserved for foreign investors - from municipal regulators in Shanghai and Shenzhen. It has now replaced the locally issued regulations that have governed the market in the past with a new set of implementation rules.

The CSRC has already established its authority over the 25 or so securities trading centres outside the main stock markets, which mainly deal in bonds and which were, until last year, also controlled by the local regulators.

Some loopholes remain, but China's regulators hope that these will be closed as quickly as possible by the passing of a formal securities law.

The price being paid for this process of "standardisation" - as CSRC officials call it - is a slow-down in market expansion. This year, there has been only one new B-share company approved for listing.

Mr Li Jiange, the CSRC's vice chairman, however, protests that: "The stock market will grow on consolidation of the market."

Few analysts deny that some regulatory consolidating is necessary. Last year, one of the country's premier brokerages lost virtually its entire capital after a punt on the bond futures market went badly wrong. The company had gone well beyond authorised trading limits and had been doing so for some time without being punished.

The CSRC, while technically in charge of futures markets, had avoided interference for fear of offending the ministry

of finance, which typically considers any bond market its own domain. Municipal regulators in Shanghai say that while they had noticed abnormal activity, their "power of investigation and supervision was limited" and they were "not qualified" to check what was happening.

Such disagreement over who is in charge of markets is unlikely to disappear. Indeed, discussions about the role of other government departments in regulating the securities markets is one of the main reasons the securities law, after numerous drafts, has still not been finalised.

The difference is that the CSRC now has the upper hand - with nominal responsibility for most securities instruments and markets across the country. In March, it delegated authority to local government regulators, who will act as CSRC branches in day-to-day supervision of the markets - although staff will continue to be appointed by local governments.

For foreign brokers in China, who are limited to dealing in shares, the biggest regulatory headache is inadequate disclosure. Again and again, annual results have come out dramatically below brokers' expectations as companies have proved reluctant to tell visiting analysts the bad news.

Since the CSRC took charge and issued new B-share regulations, disclosure standards have been raised - at least on paper.

The Shanghai Stock Exchange also took the unprecedented step of suspending trading in the shares of six companies for a period of two days after they posted particularly poor annual results in April.

Although the companies had not been violating any specific disclosure standards, it was the first signal that the authorities were serious about making companies accountable to shareholders.

However, while foreign brokers welcome the CSRC's tougher stance, they are worried where the trend towards centralisation might lead. The precarious position of Chinese

securities markets as "experiments" in an economy still subject to central government planning objectives has already led to criticisms of over-interference.

One key problem is the Chinese government's ideological commitment to state retention of a controlling stake in companies that are listed. In practice, this means investors cannot exert effective control over corporate performance, because they do not have the power to oust incompetent management.

Foreign investment bankers have also been astonished by China's insistence that the government, and not investors, should select companies for listing.

The government's role in the selection process has meant that cash-starved state-owned enterprises - chosen as much for policy as for commercial reasons - dominate the exchanges.

As the regulator, the main challenge facing the CSRC is to ensure that in future its own actions do not exacerbate market participants' complaints about government interference.

In July 1994, after a prolonged fall in A-share market, reserved for local investors, the CSRC tried to lift prices by announcing a market support package. The market jumped 122 per cent in less than a week on hearing the news. A World Bank report condemned the move as "unwarranted market manipulation of a major nature". Mr Li blames the action on the agency's "lack of experience", and says the CSRC is aware that government interference in the market will give investors "the wrong signal". He adds that the CSRC now recognises that its "major responsibility is to make the rules, and to ensure that they are observed", and that "volatility of the market is not that important".

It is now a question of convincing market participants. Stock market officials say fears of a heavy-handed approach by the government continue to undermine market confidence.

Real estate: by John Riddling

Developers find safety in houses

A commercial property slump means companies are investing more in public housing

Two years ago, construction sites in Shanghai were working 24 hours a day, says Mr Sam Crispin, chief representative for Brooke Hillier Parker in the coastal city. "Nowadays, many are quiet, even in the day time."

The explanation is evident. Clusters of new and semi-completed buildings across the horizon point to increasing oversupply. Developers, caught between rising construction costs and falling rents, have decided to put some of their projects on hold.

Shanghai is the most extreme case, but it is not alone. In Guangzhou, and in a lesser extent in Beijing, the prime office and housing sectors are confronted with a downturn after years of heady growth. Developers are left wondering when the market will turn and whether to diversify into new areas, such as public housing.

While it is difficult to generalise about cities and market segments, the slump is clear. Grade A office space in Shanghai has fallen from around US\$75 per square metre 18 months ago to about US\$60 today. In Beijing, the decline has been less marked, but space can be rented for about 10 per cent less than it could be at the beginning of 1995.

Similar trends can be seen in residential prices.

Top-end real estate has been one of the few sectors spared from the reversal. "We have seen something of a quality shakeout, leaving the premium properties relatively unscathed," says one agent.

The main force behind the price falls is the prospect of a glut. Although demand is rising, as local businesses expand and foreign companies increase their staff presence in China, it lags far behind supply. "By the year 2000 the amount of office space in Shanghai will be in the region of 50m square feet, 10 times the 1994 figure," says Mr Crispin at BHP.

Mr Peter Churchouse, managing director of Morgan Stanley Asia, argues that while Shanghai, with its emerging financial centre of Pudong, is set to emerge as a business powerhouse, it does not present an easy ride.

"We are looking at a very sharp decline as the new supply arrives," says Mr Churchouse. "Capital values could come down by 40 to 60 per cent in Shanghai, with a corresponding fall in rental values," he adds.

For the Chinese authorities, the fact that market conditions could have dampened investor ardour is good news. Mr Dai Xiangdong, governor of China's central bank, says that official policy is to divert the direction of inward investment "from the overheated real estate sector to more important infrastructure and high-tech areas". Within the real estate market,

priority is being placed on the supply of affordable housing so as to improve living standards in China's overcrowded cities. In pursuit of this aim, local and central government have imposed restrictions on the construction of luxury apartments and office space. There has been a marked slowdown in the award of new permits, with much tighter management in Beijing and north eastern cities.

At the same time, plans have been launched to accelerate the construction of low-cost housing. The so-called Comfort Housing Project, launched early last year, has set an ambitious goal of building 25m new apartments by the end of the decade. The construction ministry is also weighing plans to convert unused commercial property into residential use.

Faced with the shift in government policy and with the situation in the market, developers are now looking to public housing. The Shui On group, one of Hong Kong's largest property concerns, announced in April that it would invest about US\$500m over the next 10 years in building cheap homes in Shanghai. The project, the biggest of its kind in the city, will provide housing for around 30,000.

"Property development companies like my own have realised that they cannot go on simply concentrating on the construction of hotels, office blocks, and shopping malls," says Mr Vincent Lo, chairman of Shui On. "Our construction industry is ideally equipped to

help China solve its housing problem," he adds.

Others have taken a similar view. New World Development is building low-rise apartments to house an estimated 60,000 residents in Wuhan, in central China. Some developers from Japan and the US are also eyeing the public housing market. Mr Churchouse at Morgan Stanley sees some attractions in these projects. "Often they have a guarantee that the local

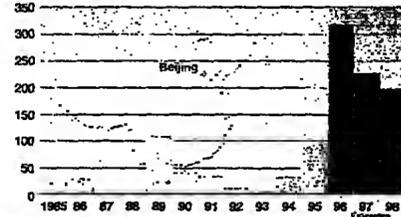
authorities will pay 15 per cent above cost," he says, referring to projects under the low-cost housing schemes. "So there is no real development risk."

But there are other potential pitfalls, including the risks relating to the guarantees of local authorities and the ability to complete the projects swiftly to achieve an adequate rate of return. Here, in marked contrast with idle office sites, speed is of the essence.

China: office supply

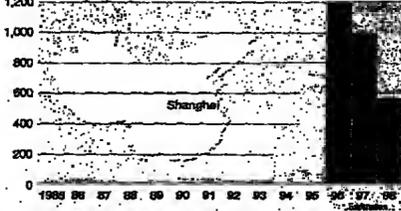
Beijing office supply

Square metres ('000)



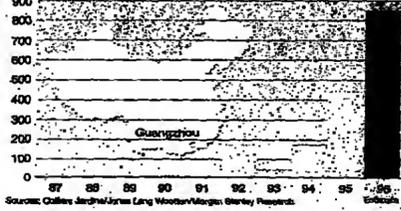
Shanghai office supply

Square metres ('000)



Guangzhou office supply

Square metres ('000)



Sources: Citibank; Jones Lang Wootton/Morgan Stanley Research.

Laibin plant to be power blueprint

Continued from page 5

ment. Mr Shi makes it clear that in spite of the dire need for additional capacity, China will continue to proceed slowly in absorbing direct foreign equity investment. It will also, he says, seek to lay down its own formula for BOT in line with local conditions.

China sees the Laibin project in the southern Guangxi region as critical to plans for greater involvement and as a model for BOT developments. It will be the first big power plant to be wholly owned by foreigners, and bids have been lodged by six consortia representing powerful international companies involved in the supply of technology and equipment.

The consortia will be hoping that success in securing agreement for the relatively small (700MW) project will provide a platform for other successful bids. But negotiations are certain to be slow and difficult, and it may take several years for Laibin to come into operation.

Complex discussions will principally revolve around issues such as the tariff level and rates of return on investment, foreign exchange guarantees and financing. The process is likely to provide a bonanza for legal and financial consultants.

China's other power-sector preoccupation in the present five-year plan is the continued development of its transmission capabilities. Central to its plans to improve efficiencies will be the establishment of a national grid. A National Grid Construction company is being set up to manage the completion of a Chinese grid by 2009 - the year when the giant Three Gorges hydro-power project is scheduled to be in production.

One of the company's main tasks will be to integrate output from the Three Gorges into the national network. Power from the massive dam on the Yangtze will account for about 4 per cent of China's capacity. The power sector is set for continuing and significant changes during the next 15 years.

THE DETAILS MAKE A PENINSULA

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THE R&D SCOREBOARD

Warning sign flashes

In a reversal of recent trends, this year's scoreboard reveals that UK companies' investment in R&D has slowed in comparison with that of their overseas competitors, writes Clive Cookson

From the UK viewpoint, the sixth annual R&D Scoreboard shows a disappointing reversal of the trend set over the previous five years during which British companies had increased research and development spending more quickly than their overseas competitors.

The UK scoreboard, published today by the Department of Trade and Industry, shows that British companies spent 4 per cent more on R&D in 1995 than in 1994, while their sales rose by 9 per cent and profits by 18 per cent.

The international scoreboard reveals a 5 per cent increase in R&D spending (and 7 per cent sales growth) by the world's top 500 companies.

As Ian Taylor, UK minister for science and technology, points out, "a warning sign is flashing because, in aggregate, the UK's companies have been consistently investing at a lower intensity than their major competitors since the Scoreboard was first published in 1991".

This large gap in "R&D intensity" - the ratio of R&D spending to sales - had been growing gradually narrower until last year's reverse.

In 1995, the world's top 500 companies spent some 4.4 per cent of sales in R&D - compared to an average of 2.5 per cent for the 18 UK companies included in this group and 1.7 per cent for all companies in

vague claims that your scientists and engineers are better than your competitors", he adds. Nor is it valid for global companies based in the UK to claim that lower R&D costs - particularly British researchers' salaries - justify lower spending. Chris Floyd, head of the technology and innovation management practice at Arthur D Little, the international consultancy, says: "Variations in R&D costs from country to country are small, any cost advantages in the UK are marginal."

Mr Floyd shares the feeling among UK-based technology managers that the scoreboard is a worthwhile exercise but he warns that benchmarking by

There are still discrepancies in the way companies add up their R&D spending

comparing R&D intensities may not be as straightforward as the DTI suggests.

Despite continuing efforts to impose international accounting standards, there are still discrepancies in the way companies add up their R&D spending. For example, some international groups follow the US practice of including tooling and engineering costs for new products - which do not count as R&D in the UK.

While Company Reporting, the Edinburgh consultancy that prepares the scoreboard

for the DTI, adjusts the data to exclude these engineering costs as far as possible, it concedes that there may still be overstatement of overseas R&D figures in relation to the UK.

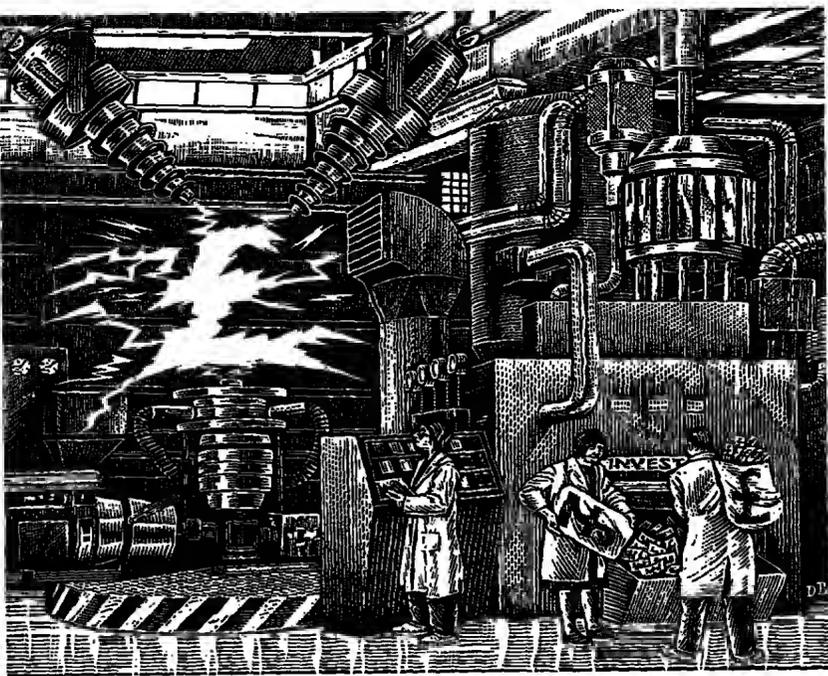
However, such discrepancies in accounting cannot explain fully the huge variation in relative performance of different UK industrial sectors.

The pharmaceuticals is the only significant sector in which UK companies match their international competitors in R&D intensity, with spending at just over 12 per cent of sales. It also happens to be the only science-based sector in which the UK still has a clutch of world-class competitors.

The drug companies account for one third of corporate R&D spending in the UK, and Glaxo Wellcome, the giant formed last year when Glaxo took over Wellcome, is responsible for 13 per cent alone. When the last scoreboard was published a year ago, there was widespread apprehension that GW would cut the two companies' combined £1.2bn R&D budget, as part of the post-merger rationalisation process, hitting the overall UK performance.

In the event, GW has cut R&D staff and is closing Wellcome's former laboratories in Beckenham, Kent. But it is holding overall spending steady, as the group is investing heavily in robotics and automation in-house and is spending more on external collaborations with universities and biotechnology companies.

In other important sectors, such as engineering, electronics and chemicals, most UK companies invest far less in R&D than international com-



petitors. In engineering, for example, the UK average is 2 per cent of sales - half the international level.

However, as Mr Taylor points out, there are isolated examples of successful "world class" companies, large and small, across the UK scoreboard, which invest in R&D at

comparable intensities to their overseas competitors.

Among the large companies, the most spectacular performer is Renters, the media and financial information group. Its R&D spending - mainly on software development - leaped by another 20 per cent last year to £31m; the figure in

1992 had been only £78m.

Much further down the scoreboard, beleaguered Yorkshire Water stands out for having increased R&D spending by 218 per cent from £1.7m in 1994 to £5.4m in 1995.

At first sight, this seems like a prompt response to last summer's drought crisis. But then

look at the Yorkshire Water's 1995 spending of £5.5m. This pattern of slash-and-boom may indicate the state of mind that got the company into such trouble.

These are just some of the interesting corporate stories revealed by a careful reading of the scoreboard.

R&D EXPENDITURE: RANKING OF TOP 500 INTERNATIONAL COMPANIES BY SECTOR

Sector	Company	1995			1994			1993		
		Current R&D Spending (£'000)	% Sales	Cost of R&D as % of GDP	Current R&D Spending (£'000)	% Sales	Cost of R&D as % of GDP	Current R&D Spending (£'000)	% Sales	Cost of R&D as % of GDP
International: All companies composite		124,749,031	2.28%	111.112	114,427,078	1.96%	116.741	112,955,413	1.82%	115.523
		124,749,031	2.28%	111.112	114,427,078	1.96%	116.741	112,955,413	1.82%	115.523
1 Beverages, pubs & restaurants		103,145	5.75%	1.8	118,205	8	108,446	104,225	66,596	66,596
		103,145	5.75%	1.8	118,205	8	108,446	104,225	66,596	66,596
2 Building materials and chemicals		474,094	1.82%	1	465,628	38.2	471,249	464,438	448,641	448,641
		474,094	1.82%	1	465,628	38.2	471,249	464,438	448,641	448,641
3 Chemicals		17,597,534	7	17	17,597,534	16,898.118	16,898.118	16,898.118	16,898.118	16,898.118
		17,597,534	7	17	17,597,534	16,898.118	16,898.118	16,898.118	16,898.118	16,898.118
4 Consumer goods		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
5 Electronics		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
6 Engineering		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
7 Financial services		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
8 Food		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
9 Health care		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
10 Information technology		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
11 Media		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
12 Non-metallic minerals		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
13 Other services and businesses		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
14 Paper, packaging and printing		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
15 Pharmaceuticals		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
16 Textiles and clothing		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
17 Transport		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
18 Utilities		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7
		1,296,555	3.23%	6.7	1,296,555	3.23%	6.7	1,296,555	3.23%	6.7

2 R&D Scoreboard

Europe: by Clive Cookson

Focus on competitiveness

Debate is already under way about the direction of the Fifth Framework Programme

The European Union's Fourth Framework Programme for Research and Development, which will distribute Ecu1.1bn (£10.9bn) in R&D grants over the period 1994-95, is in full swing. But planning is already under way for the follow-up Fifth Framework Programme.

Several national governments put forward their preliminary views to the European Commission in Brussels this month. And it is clear that France, Germany and the UK have several ideas in common.

The three countries believe that, compared with the fourth programme, Framework Piva should:

- focus more on industrial competitiveness;
- involve users more closely;
- have a more streamlined management structure; and
- contain fewer specific programmes than the current 17.

They will also resist any attempt to increase EU spending on R&D.

However, as Ian Taylor, the UK science and technology minister, says, everyone accepts that there is a "clear need for a further programme of research and technological development at European level to address questions of industrial competitiveness and to provide support for European

policy making".

The essential requirement for applying for a Framework grant is that the proposal must involve at least two participants from different EU countries. They may be companies, universities or other research institutions in the private or public sector. European subsidiaries of companies based in the US, Japan or other non-EU countries are eligible. The EU normally contributes up to half of the project's cost.

Framework is intended to fund pre-competitive research, in contrast to Eureka, the other big European research scheme. Eureka, an inter-governmental initiative outside the EU, supports projects that are closer to commercial application.

The UK suggests that Framework Five should be "organised primarily around objective-driven themes which seek to address the medium-term technological needs of European industry, to contribute to improvements in quality of life, and to support European policies more broadly". The fourth programme, in contrast, is based on 17 subject areas, ranging from information technology (the Esprit programme) through environment and climate to nuclear safety.

Illustrative examples of possible themes are given in the UK submission - many of them suggested in Britain's Technology Foresight exercise, involving thousands of people from the country's business and academic sectors over the past two years. They include:

- Intelligent business and administration: innovative use of information systems in business and public services;
- Agile enterprise: developing a responsive, adaptable business;
- Energy for tomorrow's Europe;
- Towards tomorrow's cars: technologies for the environmentally friendly, more efficient vehicle;
- The informed citizen: empowering the individual

Europe's universities are urging the EC not to abandon its support for basic research

- through easier access to information for culture, leisure and self-development;
- Better building and construction;
- European aeronautics for the world markets;
- Molecular and bio-technologies for competitiveness and quality of life;
- Sustainable farming and fishing.

Some of these themes should strike a sympathetic chord in Brussels, where eight EC task forces have recommended areas of R&D likely to be crucial for industrial competitiveness, employment and quality of life. Several UK themes and EC areas are similar.

The German government has also suggested a set of themes - ageing, robotics, vaccines and viral diseases, clean power generation, tele-medicine and the car of the future.

A hazy outline of Framework Five is thus beginning to appear. It would have a set of perhaps a dozen themes, cutting across a smaller number of discipline-related programmes. These technologies might include information and communications; life sciences and medicine; energy, environment and the sea; engineering and materials; social and economic sciences.

Despite the likely industrial orientation of Framework Five, Europe's universities are urging the EC not to abandon its support for basic research. The European Science and Technology Assembly, an independent group of scientists, wants 10 per cent of Framework funds to be devoted to basic science. And the UK Committee of Vice-Chancellors and Principals suggests that EC funding of basic research should rise from half to three-quarters.

EC officials expect to complete a preliminary outline of their ideas for Framework Five this summer. It will be worked up into a full proposal for submission to the council of ministers early next year. But experience with previous Framework programmes suggests that negotiations between the EC and member states over funding and content will continue well into 1996.



Long-term research: a second world war stock of 8,000 human brains - the Corneils Collection - has been opened up to scientists. Ron Leighton/Reuters

External resources: by Michael Kenward

Good news for contractors

Independent groups are benefiting from foreign enthusiasm for research

While British companies continue to compare badly with their competitors when it comes to investment in R&D, independent research and technology organisations (RTOs) are benefiting from the greater enthusiasm for research among foreign companies.

The latest figures available from the Association of Independent Research & Technology Organisations (Airtro) show that between 1992 and 1994, the organisation's 38 members saw overseas sales rising from 20 to 27 per cent of turnover.

The contract research sector as a whole has fared no better than the rest of British industry. But the flat level of income is due mostly to declines of 30 per cent in the income of WRC, the Water Research Centre, down to £2m last year, and around 20 per cent for Pera Group, down to £25m.

Brian Blunden, chairman of Airtro and managing director of Pira International, highlights two reasons for the growing importance of exports to Britain's RTOs. As well as the greater enthusiasm for R&D in foreign companies, there is generally more interest in outsourcing R&D. "The world market for outsourcing R&D is growing significantly," says Mr Blunden.

The recent CBI/NatWest innovation trends survey revealed a continuing rise in R&D collaboration with a total of 22.5bn.

One sign of the relatively healthy state of the RTO sector as a whole is the increased membership of Airtro, up from 34 members last year to 42 now. The organisation's members carry out work for 19 of the top 20 companies in the UK R&D Scoreboard, and all of the top 20 companies in the international league table.

One new member of Airtro this year is CRL, a subsidiary of Thorn EMI and formerly the electronics company's R&D wing. Now earning about 95 per cent of its income from outside the parent company, CRL concentrates on developing and exploiting patents and other intellectual property rights rather than on straight contract research.

Much of CRL's recent growth, running at between 15 and 30 per cent a year, has come from the Far East and North America. Dr John White, managing director of CRL, ascribes the growing importance of these markets to the economic recession in Europe, which has hit R&D budgets. Dr White expects to see growth in Europe's contract R&D spending even if the economy stays flat.

He believes that companies realise that they cannot hold

down R&D spending for more than a few years if they do not want to cause permanent harm to their technical competitiveness.

Contract research organisations can thrive even when their industry is in recession. For example, the travails of the motor manufacturing sector have done little to harm MIRA, the Motor Industry Research Association. MIRA, celebrating its 50th anniversary, increased turnover by about 25 per cent last year.

John Wood, MIRA's managing director, believes that the growth "reflects changes in our industry." Leading car manufacturers are reducing their supplier base and buying from a smaller number of suppliers, a strategy that applies to service providers as much as to makers of components.

Customers now give MIRA greater responsibility for complete projects, including vehicle development programmes, as well as work to develop components. Contract research also has a value in trouble shooting. "Companies don't like keeping a large number of engineers on the shelf waiting for a problem to occur," says Mr White. If a prototype vehicle turns out to be noisy, for example, MIRA has expertise that can come into play.

By subcontracting its own research programmes, MIRA has been able to enhance its appeal to customers who want to participate in pre-competitive research. One such programme involves working on fuel cells as possible power supplies to replace the internal combustion engine.

Pre-competitive research also involves the role of the RTOs as bridges between their customers and the academic world. On fuel cells, for example, MIRA works with Loughborough University.

While RTOs are leading operators in contract research, there is a growing acceptance of the mechanism among high-tech companies in general.

Oxford Molecular, for example, started its business providing the pharmaceutical industry with software tools to help in the development of new drugs. Its original aim was to exploit computer-aided molecular design, developing software that encapsulates the scientific knowledge of how molecules and atoms behave.

As well as supplying software systems in the increasingly fashionable area of bio-informatics to such industry leaders as Glaxo Wellcome, Oxford Molecular has moved into contract research in drug discovery. The company already has a collaborative arrangement with Yamanouchi, Japan's third largest pharmaceutical company, and Alzyme, a UK biotechnology company.

Dr Tony Marchington, chief executive of Oxford Molecular, envisages a rapid increase in revenue from contract research from 8 per cent in 1994 to more than 30 per cent next year. It plans to do this by helping large companies to deal with the flood of ideas for new compounds thrown up by academic research.

As contract researchers, says Dr Marchington, "we have got to offer something that they do not want to source internally". The company's strategy is to assemble small "virtual teams" to develop drugs, combining the modelling expertise of Oxford Molecular with scientific skills drawn from the company's growing network of academic contacts. Such an approach can fill what Dr Marchington sees as a gap in the expertise of the large companies, the ability to demonstrate "proof of concepts showing that a scientific idea has the

makings of a new pharmaceutical compound".

Just as MIRA has benefited from the new approach to purchasing by leading car companies, Dr Marchington believes Oxford Molecular can do well out of contract drug development because the pharmaceutical companies are also changing. No longer are they small, in terms of market share, and determined to maintain expertise in every area of their activities. Dr Marchington believes the enlarged companies will

"look more and more to source research and development of new chemical entities. It is a part of an overall trend of the pharmaceuticals industry maturing", he says.

"Virtual R&D" is itself a growing phenomenon, but one that has to be managed carefully, says Dr Steve Bone of business and technology consultants Scientific Generics. He warns that while virtual R&D can bring huge benefits, "companies don't seem to spend enough time up front thinking about what their technology strategy is and what should be insured or outsourced".

Companies in Europe have damaged their technical competence in the rush to downsize operations, says Dr Bone. In North America, by contrast, the emphasis has been on developing core competences. Companies see outsourced R&D not as a way of overcoming a shortage of capacity in-house, but of acquiring technology more quickly and of spreading risks.

Perhaps more important, says Dr Bone, outsourcing is seen as a way of internationalising R&D. "You get your R&D team to look outward rather than inward." By contrast, he still detects in British companies signs of the "not invented here" syndrome, a reluctance to pick up ideas from outside the organisation.

The tables and how to read them

The R&D Scoreboard is prepared for the Department of Trade and Industry by Company Reporting, an Edinburgh consultancy. It is based on figures published in annual reports and accounts up to May 31, 1996.

The UK table (on page 4) shows the top 300 R&D spenders extracted from the list of 446 companies in the full scoreboard. Those in italics are unlisted companies or the UK subsidiaries of foreign-owned companies. The remainder are companies based in Britain and listed on the London Stock Exchange.

The main international table (on page 1) shows the world's top 300 R&D spend-

ers, whether or not they are listed companies, broken down according to their industrial sector.

Company Reporting's non-UK data are supplemented by Standard and Poor's Compustat Global Vantage database. All currencies are converted to sterling at the exchange rates on December 31, 1995.

The R&D spend shows the amount of R&D that is funded by the company anywhere in the world. R&D paid for by governments and other external sources is excluded.

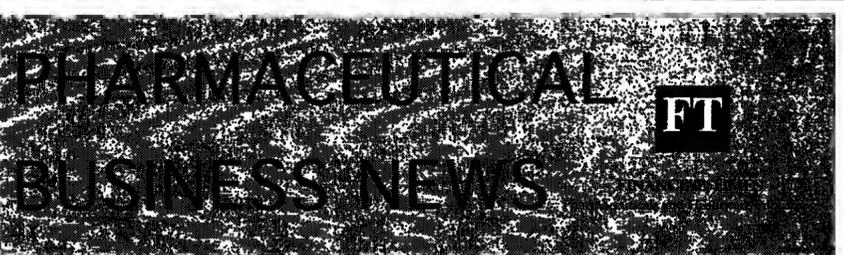
The figures are subject to uncertainties of definition. The UK definition is contained in Statement of Standard Account-

ing Practice (SSAP) 13. For international companies, the definition is governed by International Accounting Standard (IAS) 9. Both these definitions are based on the OECD "Prascati" manual.

Cost of funds is the sum of equity and preference dividends, interest payable and other financing costs (such as the finance element of lease payments).

The printed version of the scoreboard is available free from the DTI Innovation Unit by calling +44 (0) 171 215 1217.

A floppy disk is available for £75 from Company Reporting on +44 (0) 131 558 1400.



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		Current R&D Spending F'000	% change	Sales '95	R&D % of sales	Cost of funds F'000	R&D as % of CF	1994 F'000	1995 F'000	1996 F'000
All companies composite		124,748,021	5	2,638,571	4.4	104,102,112	119.8	119,425,078	718,724,491	712,928,415
General Motors	USA	5,492,498	19	108,739	5	4,302,287	128.6	4,537,824	3,883,743	3,619,059
Ford Motor	USA	4,182,222	25	71,188	5.9	1,404,740	286.4	3,289,227	3,293,639	2,769,159
Siemens	Germany	3,273,332	25	38,843	8.2	1,100,911	297.4	3,376,623	3,469,134	3,772,257
Hitachi	Japan	3,089,821	1	47,404	6.5	683,873	442.3	3,028,589	3,128,451	3,243,829
American Telephone & Telegraph	USA	2,984,682	20	51,274	4.7	1,468,538	181.1	2,003,091	1,976,884	1,874,919
Daimler-Benz	Germany	2,305,028	2	46,587	5.1	1,430,252	161.2	2,305,028	2,205,822	2,100,021
Mitsubishi Electric Industrial	Japan	2,260,823	-1	43,283	5.4	739,671	323.8	2,285,839	2,398,357	2,619,440
International Business Machines	USA	2,111,521	0	42,246	4.7	1,411,225	154.5	2,178,221	2,053,922	2,073,885
Fujitsu	Japan	2,052,441	-2	20,543	9.8	469,449	440	2,092,035	2,415,732	2,448,941
Nippon Telegraph & Telephone	Japan	1,950,113	1	43,982	4.5	2,220,027	86.3	1,939,220	1,844,804	1,791,330
Toshiba	Japan	1,886,784	-3	29,915	8.3	780,332	248.2	1,944,609	1,945,576	1,939,794
Asea Brown Boveri	Switzerland	1,882,010	12	21,730	7.8	636,316	297.8	1,515,522	1,482,707	1,556,777
HSC	Japan	1,808,949	2	29,520	7.1	607,275	273.5	1,833,606	1,717,214	1,683,194
Hewlett-Packard	Germany	1,556,538	3	23,476	5.7	762,587	202.9	1,516,065	1,367,889	1,308,812
Philips	The Netherlands	1,547,232	4	25,900	6	1,052,232	145.7	1,494,589	1,364,314	1,476,386
Wolfsberger	Germany	1,200,615	21	39,673	3.9	1,147,861	133.3	1,200,615	1,205,013	1,200,615
Sony	USA	1,482,948	4	24,889	6	540,218	271.5	1,435,398	1,448,551	1,262,287
Hewlett-Packard	USA	1,462,674	14	20,300	7.3	383,281	403.2	1,395,631	1,334,328	1,045,011
Electronic Telefun	Sweden	1,408,349	13	9,600	15.3	324,103	432.6	1,302,951	1,081,878	718,051
Rover	Germany	1,405,594	5	30,011	7.3	738,457	189.6	1,425,894	1,420,864	1,388,213
Alcatel Alenia	France	1,436,267	3	22,679	6.5	294,821	487.2	1,387,238	1,081,289	1,288,558
Mitsubishi Electric	Japan	1,415,043	16	17,414	8.1	289,838	488.2	1,187,596	468.2	979,947
Rohm	Japan	1,381,835	-2	4,246	15.6	742,255	185.0	1,218,049	850,919	618,746
Hitachi	Japan	1,267,582	6	24,763	5.1	289,819	445.4	1,205,345	1,210,747	1,118,367
Glaxo Wellcome	UK	1,200,000	0	7,973	15.1	1,448,000	83	1,176,986	1,244,818	1,200,000
Dea-Gelby	Switzerland	1,111,111	-5	11,296	9.6	507,136	218	1,204,030	1,222,577	1,315,421
Johnson & Johnson	USA	1,052,428	28	12,135	8.7	692,160	157.1	823,125	761,303	728,879
Rohm	Japan	1,040,986	3	24,242	4.3	531,282	198.0	1,018,049	950,919	918,746
Mitsubishi Electric	Norway	867,292	-1	20,289	5.1	445,495	232.2	1,048,391	1,252,431	1,020,003
Hitachi	Canada	1,077,000	37	6,673	14.8	174,545	627.7	744,557	594,496	762,005
Robert Bosch	Germany	1,014,760	15	15,515	6.5	56,580	185.7	956,757	1,025,910	884,889
Bell Canada Enterprises	Canada	1,007,792	33	11,628	8.7	1,055,962	95.4	738,441	587,485	563,624
GRF	Germany	926,554	9	4,476	18	589,286	158.4	822,398	870,488	827,789
Rhone-Poulenc	France	923,889	6	11,523	8.1	812,288	113.2	878,688	843,362	785,217
Philips	USA	928,022	27	6,454	14.4	543,112	169.5	733,685	627,392	633,970
Chrysler	USA	914,584	9	31,947	2.9	1,124,837	79.2	830,227	782,219	678,284
American Home Products	USA	872,705	-8	8,615	10.1	534,029	163.3	828,272	428,425	355,822
Sandoz	Switzerland	862,140	-6	8,332	18.1	742,558	115.0	816,197	878,210	827,580
Merck	USA	837,232	0	10,743	8	1,078,830	78.4	792,605	755,376	715,660
General Electric	USA	836,981	10	48,163	1.5	6,506,674	12.8	797,439	826,372	871,441
Hessing	USA	816,059	-26	12,989	6.5	918,175	286.5	1,007,813	1,008,818	1,100,979
Pfizer & Zenith	USA	806,000	19	21,334	3.8	689,225	81	882,091	615,741	594,553
Pharmacia & Upjohn	Italy	807,367	0	4,476	18	346,398	232.3	748,908	738,398	685,515
Celanese	Italy	783,772	-14	28,487	3	287,003	88.4	611,881	1,053,895	1,015,025
Conoco	Japan	787,063	3	13,924	5.6	287,003	263.3	72		

The chemicals industry: by Jenny Luesby

Commerce to the fore

The benefits of being several steps ahead of the competition have been re-evaluated

R&D by the chemical industry may once have been linked to grand aims such as solving global problems. Today its objective is to deliver incremental product improvements. Scientists have been reorganised, rationalised and re-focused, to link their work to the needs of customers and accelerate development. The result, claim chemical producers, is a smaller proportion of sales income delivering greater commercial gains.

The fall in the share of income spent on R&D is clear from the scoreboard. The R&D intensity of the world's leading chemical companies has fallen to 5.5 per cent, from 9.8 per cent last year - despite the inclusion in the scoreboard of smaller companies with higher spending levels.

But whether this lower spend can deliver more depends on the argument that chemical companies need to be only one step ahead of their rivals to secure competitive advantage. If this is the case, abandoning programmes putting them five steps ahead in favour of cheaper schemes delivering incremental improvements over a wider product range should be beneficial.

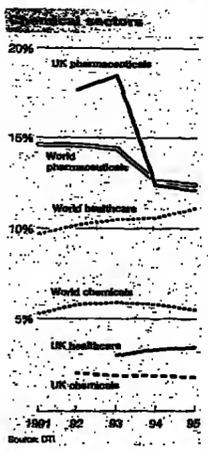
On this basis, companies are shifting away from basic research, defined by the US Chemical Manufacturers Association as exploring "unknown facts and principles of general validity, without regard to commercial objectives".

Applied research, using known phenomena or substances to meet an objective, is also losing ground and com-

mercial development is moving to the fore. Last year, US chemical companies spent 56.7 per cent of R&D funds on development, 33.8 per cent on applied research and 9.5 per cent on basic research.

However, even where companies agree that the function of chemical industry R&D should be commercialising existing science, views on how this is best achieved differ.

Spending at Dow Chemical, one of many producers to have reorganised its R&D operation into units tied to each business, has fallen by 36 per cent - more sharply than that of any other company. Most of this fall is due to the sale to Hoechst of its stake in drugs producer Marion Merrell Dow. But excluding MMD, the group's R&D ratio fell from 4.7 per cent to 4 per cent last year, and it aims to cut that ratio to 3 per cent, says Rick Gross, a



Dow vice-president. The company has introduced state-of-the-art information systems, he says. To speed up development, business teams are being brought in as soon as a scientific advance is made and marketing teams pass on far more information about their customers' difficulties to the scientists.

But information systems do not provide sufficient communication to get the most from a company's R&D opportunities, says John Beacham, group research and technology manager for ICI. "Companies cannot just use information technology and expect to share everything," he says.

For this reason, ICI last year reversed the decision taken in the early 1990s to transfer all its R&D to business level and re-established a central R&D unit. This has given it the best of both worlds, says Mr Beacham. "It gives us the focus on customers and markets, but stitches together our technology," he says. "The central unit performs sophisticated central networking functions, and offers a critical mass of skills in developing general technologies."

ICI needs to be sure it has found a better way of employing its R&D resources than its competitors, because it spends far less. The world's eighth largest chemicals company by sales, its R&D budget is only the 25th largest, with the proportion of income that it spends on R&D ranking 50th out of the 51 international chemical companies included in the scoreboard. This is partly a reflection of product mix, since most chemical companies have a drugs arm which devotes greater levels of resources to R&D. ICI has no pharmaceutical products. The group's R&D ratio, 1.8 per cent, also includes its spending on technical services.

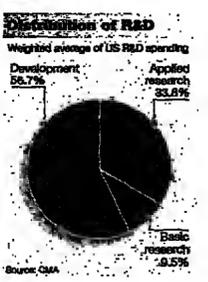
"Most chemical companies include this as R&D spending," says Mr Beacham. "If ICI did, it would push the ratio up to 2.4 per cent."

The figure is still low, however, as is the intensity of R&D among all the UK's leading chemical companies - at 1.8 per cent last year, down from 1.9 per cent in 1994.

One British producer points to the relative cost of scientists as a reason for this, with a leading researcher likely to be significantly more expensive elsewhere in Europe, and more than twice as expensive in the US or Japan.

Perhaps as significant, however, is the uniformity of the level of R&D spending by British chemical companies. As strategists throughout the industry debate how low is too low for an R&D budget, one of the more obvious benchmarks is the level of spending by peers. As Mr Gross of Dow points out, "our aim is an R&D programme that is appropriate to our business mix, opposite to the industry".

The chemicals industry remains science based, but in such a mature sector, the gains of moving much faster than the pack have been deemed insufficient to pass the test of shareholder value.



Indicators: by Vanessa Houlder

Evaluation proves tricky

Innovation is hard to measure and is not always directly reflected in financial gain

The scoreboard measures spending on R&D - one of the most important inputs to innovation. But increasingly, attention is being focused on the outputs of R&D spending, as governments and businesses seek to improve the efficiency with which R&D is translated into new products and services.

This point is made by the OECD, which notes the need to "challenge the traditional idea of R&D as the hinge linking science and innovation in a linear process in which basic research is inexorably converted into new products and services."

The issue was also raised at a seminar on R&D valuation organised by SmithKline Beecham last September. "The linear model has had its day and needs to be put to rest," concluded the seminar. It said that a period of R&D work might only produce innovation in the very long term and "often in a very unexpected way", said George Poste, R&D director of SmithKline Beecham.

The seminar put forward several reasons why the process of innovation is so difficult to pin down. "Successful invention need not necessarily lead to success in the marketplace," R&D departments may be functioning with wonderful efficiency and imagination, but if their work is poorly commercialised, no financial gain will accrue," it said.

Moreover, not all inventions are necessarily patented. Software, for example, is legally protected by copyright. One approach to overcoming the shortcomings of patent and R&D-based statistics is the publication of innovation surveys based on questionnaires completed by companies.

The OECD considers these surveys to be particularly apt at showing the type and behaviour of firms involved in innovation and for measuring certain aspects of the innovation process. "As a valid indicator of innovation, however, such surveys still suffer from the lack of international harmonisation and standardisation," it says.

One of the reasons that patent- and R&D-based statis-

tics are falling from favour stems from a re-evaluation of the relationship between R&D and innovation. Scientists no longer see innovation as a linear process in which basic research is inexorably converted into new products and services.

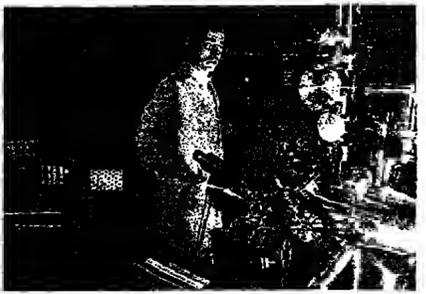
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Ticking issue: the link between R&D and innovation is being re-evaluated

These issues present real difficulties to companies that are attempting to quantify the results of their R&D spending. "Companies have found it far more difficult to measure the contribution of R&D to business performance than to measure most of the other functions in the value chain," says John Marriage of PA Consulting Group.

One reason is that the value of R&D usually appears several years after the money has been spent. Another is that it is hard to define what part of a product's success is due to R&D work, as opposed to other functions such as marketing and distribution.

Some companies are prepared to take a retrospective approach to this issue. While at BP in the late 1970s, Sir John Cadogan, now director-general of the Research Councils, developed a system in which business managers were asked what contribution past R&D had made to their bottom line. "Concentrating as it did on real benefits in the bank, rather than speculations about the future, it was a powerful tool indeed," he comments.

Other companies attempt to look forward and calculate the likely returns on their current investment in R&D. Traditionally, these calculations have been based on discounting future cash flows. But discounted cash flow techniques have limitations. They have been criticised for dealing inadequately with uncertainty and failing to capture the value of unforeseen spin-offs.

One way of overcoming these problems is by breaking up the project into a number of phases, each of which has its separate discount rate. Another approach is the application of options pricing

theory that was originally developed for valuing financial instruments. Terry Faulkner, director of strategic planning at Eastman Kodak, is an enthusiast for this approach. "Our experience over the past few years has confirmed that the use of options pricing theory concepts brings valuable insights into the R&D valuation process," he says. He has found that an options approach often yields a substantially higher valuation than a DCF approach.

"An options thinking mindset emphasises the uncertainty of the future," says Mr Faulkner in an article in Research & Technology Management.

But even this kind of sophisticated approach to R&D evaluation may have limitations. By concentrating on numerical indicators, there is a danger that the less tangible benefits will be overlooked.

This point has been underlined by research by Luke Georgiou of the University of Manchester's science policy unit. He suggests that a more comprehensive list of potential benefits to the company needs to be drawn up, including the benefits to management practices and the organisation's capacity to absorb knowledge.

Given the complexity and controversy surrounding the measurement of R&D outputs, it is perhaps unsurprising that some companies prefer to view investing in R&D as an expression of faith in the future.

The case for this approach was made by James Nield, R&D director of Glaxo Wellcome at last year's seminar where he argued that a pervasive sense of corporate optimism played an important role in the decision to invest in research. "If you don't invest in the future, you don't have a future," he said.

The motor industry: by John Griffiths

Burden shifts to suppliers

As outsourcing grows, components makers are taking on responsibility for R&D costs

There is something of a paradox in the Department of Trade and Industry's research and development spending scoreboard when it comes to the world's motor industry.

The R&D spending of most big vehicle producers is shown to be rising sharply. This should not be surprising. Vehicle building is an industry where the complexity of the product and its manufacturing processes subsume a broader spread of technologies than almost any other sector. The technologies available to it are themselves advancing at bewildering speed. Not least, sweeping changes to products and processes are being driven by proliferating environmental and safety legislation, as well as consumer preferences.

The fragmentation of vehicle markets into an ever greater number of niches - such as "lifestyle" four-wheel-drives, sports cars and multi-purpose vehicles (MPVs) - can also be expected to jack up the R&D bill, as the need for a broader model range increases and the opportunity for long product runs and their associated economies of scale diminish.

Yet a profound structural change is also going on within the industry which should reduce the vehicle makers' R&D spend: the outsourcing of an ever greater number of components and component systems to independent suppliers.

Not only are these suppliers - typified by Robert Bosch of Germany, Magneti Marelli of Italy and Lucas Industries (soon to be LucasVartley) of the UK - following the big vehicle



Mercedes-Benz All Activity Vehicle concept: the fragmentation of markets into niches will push up the R&D bill

makers into whichever region of the world they wish to make or sell cars. They are also being required to design and develop, as well as manufacture, these complex components. This is because even vehicle makers as large as General Motors, the world's biggest, are coming to regard their core role as being assemblers of vehicles rather than integrated manufacturers.

Thus an ever larger share of the total motor industry R&D burden is being borne by the supplier industry.

In some, but by no means all, cases this does show up on the DIT's motor industry scoreboard. Valeo, the French components group ranked 15th on the scoreboard, last year stepped up its R&D spend by 14 per cent, well ahead of its 9 per cent rise in sales, as part of its drive to secure a broader spread of international business by increasing its systems design and development capabilities.

For some companies, such a jump could correctly be interpreted as a panic response to change after a period of underinvestment in R&D. By European standards, however, Valeo has been a consistently

above-average R&D investor at about 6 per cent of sales.

GKN, T&N and Lucas of the UK - each determined to be among the few dozen "global" companies into which the components industry is expected to coalesce within the next decade - also ramped up their R&D spending by significant amounts last year. However, the improvement was less impressive than their sales performance. GKN's 14 per cent increase in R&D spend, for example, trailed marginally behind a 17 per cent jump in sales and Lucas's 9 per cent rise compared with a 12 per cent sales hike.

On the face of it, last year's rise left Valeo well ahead of 10th-ranked Nippondenso, Japan's largest motor components group and among the most outward-looking of Japan's components suppliers.

But while Nippondenso's spending rose by "only" 7 per cent last year, this was despite a 1 per cent drop in sales as Japan's motor industry continued to be battered by recession and still left the R&D "spend" above 8 per cent of sales. Measured by such yardsticks, the UK motor components sector is at best an average performer

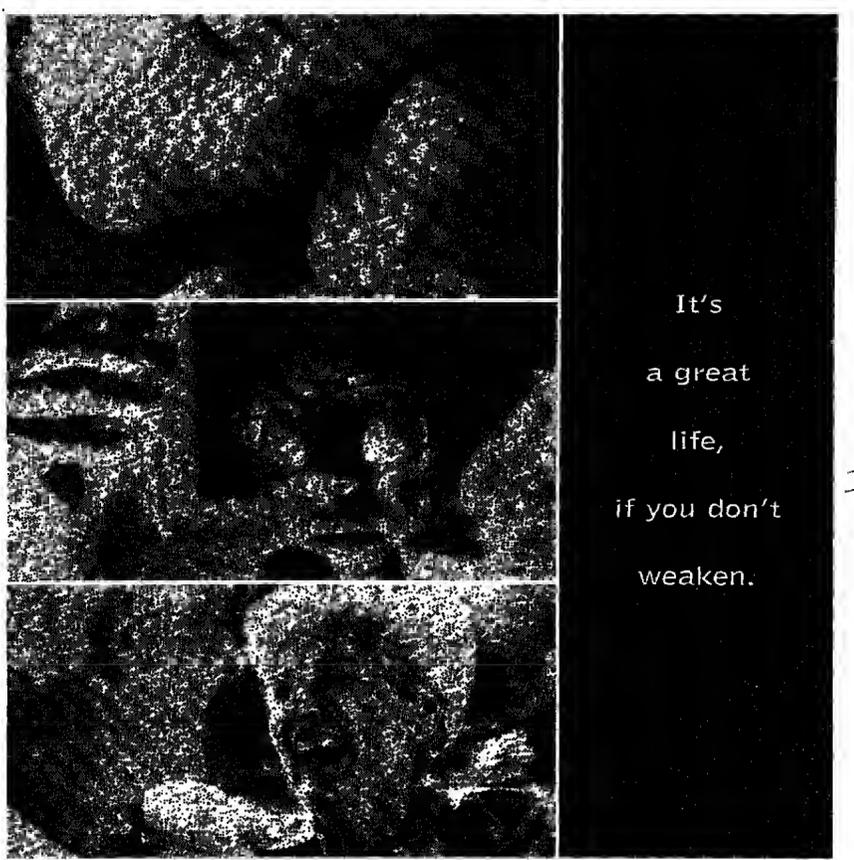
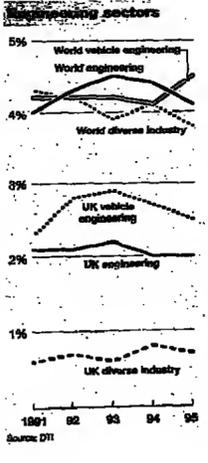
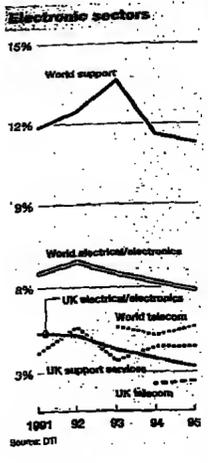
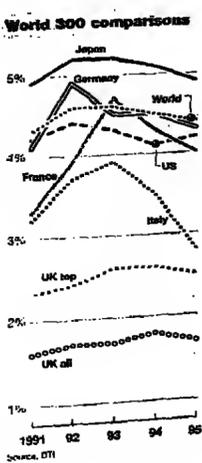
by North American and west European standards, at about 2.5 to 4 per cent of sales.

The big fluctuations showing up on this year's scoreboard for UK-based vehicle makers mostly reflect structural changes within the companies. Only Ford and the BMW-owned Rover Group have substantial R&D operations in the UK. The 19 per cent drop in Ford's UK spend last year in part reflected changes in how R&D is being shared between Ford's Duncorn engineering centre in the UK and Mercedes in Germany as the "Ford 3000" globalisation programme gathers pace.

The 23 per cent jump at Rover Group is more encouraging - reflecting the more than doubling of investment at Rover planned over the next five or six years by its German parent, compared with previous investment levels under former UK owner British Aerospace. "Total investment in Rover will be at the rate of £500m to £600m a year to past the end of the decade, allowing us to undertake programmes we could not previously have contemplated," says a Rover spokesman.

Not least, it will allow Rover to develop further its engine technology, as the industry prepares to grapple with tough new exhaust emissions standards for European cars unveiled by the European Commission last month.

Such legislative pressures are not only forcing up R&D spending, but also helping forge new alliances within the industry to tackle them. Thus the planned merger between Lucas and Vartley Corporation, the US diesel engine and components maker, is intended to create not only scale economies but also a combined R&D effort greater than the sum of the individual companies' parts. Lucas is a world leader in brake components, for example; Vartley, through its Kelsey-Hayes subsidiary, is a leader in electronic vehicle traction control systems. Together, as a Vartley spokesman said at the merger's launch, "it's a combination which could be pretty hard to beat".



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A picture of health for generations

4 R&D Scoreboard

Financial reporting: by Jim Kelly

How to account for the intangible

What constitutes R&D expenditure and how it should be treated in company accounts is under debate

Cable & Wireless, the UK-based telecommunications group, must be wondering what it has to do to get on the R&D Scoreboard. Its 1996 accounts do contain data, painstakingly collected from around the business, but it may not make the next scoreboard.

Mr O'Hara kept his promise in the 1996 accounts - which will be considered for next year's scoreboard. But David Tonkin, whose consultancy Company Reporting compiles the scoreboard, believes the methods chosen by C&W for disclosure bar the figures from inclusion. The two sides are talking about the way forward.

C&W's accounts state, within the directors' report, that "included within capital expenditure for the year is £26m of successful technical development which formed an integral part of capital projects."

gral part of capital projects." A further £5m was charged to operating profits to cover various costs such as "support for research institutions". C&W believes £91m is therefore its R&D figure.

Mr Tonkin says that when he read the figures presented in this fashion, he felt strongly that he was not dealing with an "R&D culture". He added: "They may have bent over backwards but it may well be failed because the message that's coming through is that they are actually not an R&D based company."

Chris Tyler, corporate financial accountant, agrees: "Fundamentally we are an operator not a researcher." He explains that C&W is "an operator of other peoples' kit which we have to tailor to fit us and then enhance".

With no research laboratories, although C&W has access to other people's, Mr Tyler had to go out and search for the R&D costs.

The basis of the C&W business is a "state of the art telecoms system". Mr Tyler asked the company's fixed asset accountants to look at the system and using criteria from the current accounting standard on R&D, SSAP 13, to identify the development element of capital expenditure.

The problem is that development expenditure under SSAP 13 should be written off or, in specific cases, capitalised as an intangible asset. Mr Tyler chose the latter, as he did, after talking to auditors KPMG, because he felt the £96m was fundamentally an integral part of fixed assets - and only secondarily R&D expenditure, and therefore a tangible rather than an intangible asset.

Mr Tonkin would like C&W to make it explicit that SSAP 13 was used to

'No one really knows what is going on - what resources are being committed'

Identify the £96m and that a note should therefore appear to the fixed assets in the company's financial statement, not in the directors' report. But Mr Tyler believes this will lead to confusion, because SSAP 13 is only used in such circumstances linked to intangible assets - and there is nothing intangible about C&W's telecoms systems.

Mr Tonkin is also unhappy about the £5m disclosure. "This is a bit obscure. It sounds more like a gift." He explains that the objective of the R&D Scoreboard is to isolate the

spend on technology which is incorporated into products - "the wealth creator for the company," as he calls it. Mr Tyler says the £5m includes "our contribution to blue sky research."

Mr Tyler believes SSAP 13 has useful definitions but there are problems applying it to companies such as C&W. He says it works well in a drugs company where research costs can be later matched against the production of pills. But C&W either buys in its R&D or develops the bought-in fixed assets of the system.

"Our R&D is all capitalised within our fixed assets," he says. And he is adamant that he cannot have the £96m as both fixed and intangible. "You can't have it in two places."

Again, the two sides are in talks about what to do next year. Considering the problems C&W had identifying R&D expenditure, it is not surprising that those whose job is to manage the creative processes of design, research and development have long been handicapped by the lack of quantitative data available.

The Design Council is working on the problem - tracked by the Labour party. Angela Dumas, research director at the council, says that work under way is focused on trying to quantify what goes on in the "fuzzy front end" of design and research - upstream of the point when product specification allows traditional management accounting techniques to start producing data on costs and benefits.

"No one really knows what is going

on - what resources are being committed," she says. As a result good ideas can "bump along the bottom", bad ideas can soak up resources, and innovations applicable in other industries can remain unrealised assets. Without crushing the creative process, she wants to investigate what is really happening - and to produce data that allows it to be managed better.

Three sets of academics are helping. Professor Peter Miller of the London School of Economics is involved in a case study with a high-tech multinational, while Dundee University is involved in accounting research on the problem. And a performance measure study, to provide benchmarks, is being undertaken by Dr Nick Oliver of the Judge Institute, Cambridge.

The Design Council's attempts to get inside the "right hand brain" of companies to look at investing in design as a process is being keenly watched by Labour. A policy document on innovation, science and technology due soon will say that the competitiveness of UK companies has suffered from a "brain drain of science" under the current government.

Labour believes that the kind of work being done by the Design Council into improving management accounting practices could help companies evaluate investment in research at the early stages of development. If the project yields data, Labour is likely to want it disclosed - along with other R&D expenditure - in the accounts of all UK companies.

Performance by country: by Clive Cookson

Spending varies

The international R&D scoreboard shows huge variations between companies' performance in different countries. The UK has the lowest R&D intensity - 2.5 per cent of sales - but Italy is sliding fast. R&D spending by Italian companies has fallen by 8 per cent in each of the past two years and their R&D intensity, which was 3.9 per cent in 1993, was just 2.8 per cent last year.

Flat, the Italian car giant, cut spending by 14 per cent last year - in contrast to the industry as a whole. This is partly a reflection of the fact that Fiat has a different investment cycle to most of its competitors but even so it is not a good sign. The other prominent Italian company cutting back on R&D is Olivetti, the electronics group, with spending down from £186m in 1993 to £175m in 1994 and £165m last year.

France is also performing poorly, with a decline of 2 per cent last year and 5 per cent in 1994. Most of the large French engineering groups are cutting R&D spending, while Bull, once the champion of the French computer industry, recorded a spectacular 31 per cent fall in 1995.

At the other extreme is Sweden, whose corporate R&D spending has been rising fast and leaped by 21 per cent in 1995. Swedish R&D intensity is now 7.3 per cent. The country's biggest spender is Ericsson, the telecommunications company, admired throughout the IT industry for its devotion to R&D; last year Ericsson spent £1.47bn on R&D, equivalent to 15.3 per cent of sales.

Swiss companies also record an excellent long-term record of maintaining R&D intensity (6.3 per cent last year). The link between the two countries is Asea Brown Boveri, the half-Swiss half-Swedish engineering group, whose spending rose by 12 per cent to £1.69bn in 1995 (ABB appears under Switzerland in the scoreboard because of its headquarters there).

Among large countries, the US performed most impressively last year, with an 11 per cent increase in R&D. This was led by the two auto giants, General Motors and Ford, well ahead of leading electronics companies, Siemens of Germany and Hitachi of Japan, at the head of the international scoreboard.

Japan, in contrast, has recorded a flat R&D expenditure for the fourth year in succession. The R&D intensity of Japanese companies has fallen from 5.2 per cent to 4.9 per cent since 1992.

R&D EXPENDITURE: RANKING OF TOP 500 UK COMPANIES

Table with columns: Current R&D Spending (£m), % change, Sales (£m), R&D as % of sales, Cost of R&D (£m), R&D as % of CF, FYE Ratio, 1993, 1992, 1991. Lists companies like Glaxo Wellcome, British Telecom, etc.

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